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No. _____

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

HALLMARK CARDS, INCORPORATED and
HALLMARK MARKETING CORPORATION,

Petitioners,

—v.—

HARTFORD HOUSE, LTD. d/b/a BLUE MOUNTAIN ARTS,
SUSAN POLIS SCHUTZ, and STEPHEN SCHUTZ,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

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QUESTIONS PRESENTED

1. Is it contrary to the patent/copyright clause of the Constitution for a federal court to use the theory of trade dress to confer on a single manufacturer an exclusive, perpetual right to make a product?

2. Is it contrary to the policy of copyright law that ideas and styles are in the public domain for a court to use the theory of trade dress to allow one greeting card manufacturer exclusive rights to use an idea or a style of art?

3. Did the court below err in departing from other circuits by (a) basing its analysis of what product features are functional on the feasibility of alternatives rather than on what consumers demand and (b) using the theory of trade dress to hold an aggregation of functional features of a line of greeting cards to be nonfunctional and therefore protectable under the Lanham Act?

PARTIES TO THE PROCEEDINGS IN THE COURT BELOW

Petitioners Hallmark Cards, Incorporated and Hallmark Marketing Corporation were defendants in the district court and appellants in the court of appeals. Hallmark Cards, Incorporated is a privately-held Missouri corporation. Hallmark Marketing Corporation is a wholly-owned Delaware subsidiary of Hallmark Cards, Incorporated. A complete list of the other subsidiaries of Hallmark Cards, Incorporated, including foreign subsidiaries, is attached hereto as Appendix D.

Respondents Hartford House, Ltd., Susan Polis Schutz, and Stephen Schutz were plaintiffs in the district court and appellees in the court of appeals.

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SUSAN POLIS SCHUTZ, and STEPHEN SCHUTZ,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

Petitioners Hallmark Cards, Incorporated and Hallmark Marketing Corporation respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Tenth Circuit entered in this case on May 24, 1988.

OPINIONS BELOW

The opinion of the court of appeals, attached hereto as Appendix A, is reported as *Hartford House, Ltd. v. Hallmark Cards, Inc.*, 846 F.2d 1268 (10th Cir. 1988). The opinion of the district court, attached hereto as Appendix B, is reported as *Hartford House, Ltd. v. Hallmark Cards, Inc.*, 647 F. Supp. 1533 (D. Colo. 1986).

JURISDICTION

The Court of Appeals for the Tenth Circuit entered its judgment in this case on May 24, 1988, affirming a preliminary injunction entered by the United States District Court for the District of Colorado on November 20, 1986. The jurisdiction of the court of appeals was based upon 28 U.S.C. § 1292(a)(1). The Court has jurisdiction to review the judgment by writ of certiorari under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The patent/copyright clause of Article I, Section 8 of the Constitution of the United States provides:

> "The Congress shall have Power * * * To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

U.S. Const. Art. I, § 8, Cl. 8.

Section 43(a) of the Lanham Act provides:

> "Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is

likely to be damaged by the use of any such false description or representation."

15 U.S.C. § 1125(a) (1982).

Section 102(b) of the Copyright Act of 1976 provides:

> "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."

17 U.S.C. § 102(b) (1977).

STATEMENT

Introduction

This case involves a claim that the "look" of Respondents' *copyrighted* greeting cards is protected as "trade dress" under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and has been infringed by Petitioners. The district court found a trade dress and infringement of that trade dress, and preliminarily enjoined further publication of 83 of Petitioners' cards. The Tenth Circuit affirmed.

Petitioners seek a writ of certiorari because the "look" asserted by Respondents and the courts below to constitute the "trade dress" of its greeting cards is nothing less than the product itself—a combination of the functional features that make the greeting cards what they are.[1] To use the theory of trade

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1 "Trade dress", a term originally applied to packaging and labelling, has been greatly expanded by federal courts in this decade, and may now refer to any aspect of a product's appearance that is claimed to serve the function of a trademark: to identify its producer to a consumer. *See* Brown, *Design Protection: An Overview*, 34 U.C.L.A. L. Rev. 1341, 1358 (1987). Courts have held trade dress to be protectable under the Lanham Act if (1) it has acquired secondary meaning—that is, identification with a producer; (2) it is nonfunctional; and (3) the defendant's trade dress is confusingly similar. *See, e.g., Ambrit, Inc.*

dress in this way to build a permanent competition-proof fence around a copyrighted product deprives consumers and the economy of the anti-monopoly safeguards of the patent/copyright clause of Article I, Section 8 of the Constitution, encroaches on the public access to ideas and styles of art protected by the Copyright Act, and carries the Lanham Act—which nowhere mentions trade dress—into conflict with both.[2]

The Parties

Petitioner Hallmark Cards, Incorporated has manufactured greeting cards and related products for more than 75 years. 647 F. Supp. at 1536 (App. B at 16a). Its greeting cards, like Respondents', are copyrighted. Petitioner Hallmark Marketing Corporation, a wholly-owned subsidiary of Hallmark Cards, Incorporated, sells products made by its parent. (Hallmark Cards, Incorporated and Hallmark Marketing Corporation will be jointly referred to as "Hallmark".)

Respondent Hartford House, Ltd. is engaged in the manufacture and national sale of greeting cards and related products under the trade name "Blue Mountain Arts". Respondents Susan Polis Schutz and Stephen Schutz are the principal owners of Hartford House, Ltd. (Tr. 46, 82.)[3] and personally own the copyrights to its published greeting cards. (Complaint and Motion for Preliminary Injunction at ¶ 32.) (The Schutzes and

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v. Kraft, Inc., 812 F.2d 1531, 1535 (11th Cir. 1986). In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10 (1982), this Court, in *dictum*, said that "a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article."

2 Petitioners do not contend that the Lanham Act itself is unconstitutional and have therefore not served the Solicitor General pursuant to Sup. Ct. R. 28.4(b), nor did either of the lower courts serve any certification on the Attorney General pursuant to 28 U.S.C. § 2403(a).

3 Citations to "Tr. _____" refer to the transcript of the hearing before the district court on October 24, 1986, on Blue Mountain's motion for a preliminary injunction. The transcript was part of the record on appeal, and is available to be sent to the Court.

Hartford House, Ltd. will be collectively referred to as "Blue Mountain".)

The Blue Mountain Greeting Cards

In the early nineteen-eighties, Blue Mountain hit upon a style of greeting card that was to prove enormously popular. (Tr. 63, 88.) Unlike traditional greeting cards designed for an "occasion", such as a birthday or anniversary, these cards were "non-occasion" and were designed to express feelings. The cards contained long, highly emotional and personal verse. (Tr. 88.) This verse was combined with brightly-colored watercolor art, mostly of natural subjects (trees, birds, landscapes), on cards designed to look unsophisticated and handmade, thus emphasizing the personal nature of the message. (Tr. 33, 46.)

Two lines of these "emotionally expressive", handmade-looking cards, called "AireBrush Feelings" and "WaterColor Feelings", were launched in 1981 and 1983. (Tr. 63.) They quickly achieved national commercial success; the district court noted that Blue Mountain had sold millions of cards. 647 F. Supp. at 1536 and n.1 (App. B at 16a). While each of Blue Mountain's cards uses different verse and different art work, each of them uses "some or all of the features", 846 F.2d at 1274 n.4 (App. A at 12a n.4), claimed by Blue Mountain and accepted by the courts below as comprising Blue Mountain's "trade dress":

> "1. A two-fold card containing poetry on the first and third pages.
>
> 2. Unprinted surfaces on the inside three panels.
>
> 3. A deckle edge on the right side of the first page.
>
> 4. A rough-edge stripe of color, or wide stripe, on the outside of the deckle edge of the first page.
>
> 5. A high-quality, uncoated, and textured art paper for the cards.
>
> 6. Florescent [sic] ink for some of the colors printed on the cards.

7. Lengthy poetry, written in free verse, typically with a personal message.

8. Appearance of hand-lettered calligraphy on the first and third pages with the first letter of the words often enlarged.

9. An illustration that wraps around the card and is spread over three pages, including the back of the card.

10. The look of the cards primarily characterized by the backgrounds of soft colors done with air brush blends or light watercolor strokes, usually depicting simple contrasting foreground scenes superimposed in the background."

846 F.2d at 1270 (App. A at 4a), *quoting* 647 F. Supp. at 1539 (App. B at 21a-22a).[4]

Each of Blue Mountain's greeting cards is individually copyrighted and bears a copyright notice on the back. *E.g.*, Exhibits 33A, 34A. *See* 846 F.2d at 1269 (App. A at 3a); 647 F. Supp at 1535-38 (App. B at 15a).

The Hallmark Greeting Cards

By 1985, it was obvious that significant consumer demand existed for emotionally expressive greeting cards, and that none of Hallmark's existing lines of greeting cards was providing real competition in the market that Blue Mountain was so successfully exploiting. (Tr. 185, 190-92, 207-08.)

Hallmark conducted consumer tests to determine what features were responsible for Blue Mountain's success with pur-

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4 At the hearing before the district court on Blue Mountain's motion for a preliminary injunction, 105 cards from Blue Mountain's "Aire-Brush Feelings" line were introduced as Exhibits 33A-33BBBBBV, and 75 of Blue Mountain's "WaterColor Feelings" cards were introduced as Exhibits 34A-34WWW. Likewise, 94 cards from Hallmark's "Personal Touch" line were introduced at the hearing as Exhibits A1-A94. Upon motion, the court of appeals made all of these cards part of the record on appeal. These cards are available should the Court wish to see them.

chasers of emotionally expressive cards. (Tr. 193-98, 209-12). One of Hallmark's responses to those tests was, in April 1986, to modify its "Personal Touch" line of greeting cards to compete more effectively with Blue Mountain. The new designs, at issue here, are referred to as "second generation" Personal Touch or "Personal Touch II". *See* 647 F. Supp. at 1537 (App. B at 18a). Like Blue Mountain's cards, Hallmark's Personal Touch II line consisted of a collection of non-occasion greeting cards. Each used original verse and art work, different from the poems and paintings on Blue Mountain's cards. (Tr. 197-98; *compare* Exhibits 33A-33BBBBB and 34A-34WWW *with* A1-A94.) These Personal Touch II cards expressed personal feelings in long, emotional verse on cards with bright watercolor art and other characteristics designed to look and feel handmade. (Exhibits A1-A94.)

Few, if any, of Hallmark's cards have all of the ten features Blue Mountain claims as its trade dress. (Tr. 212-19.) Most of them do use watercolor scenes with natural motifs, long verse and some other element or elements to emphasize the handmade, personalized impression made by the cards. All of Hallmark's Personal Touch II cards are clearly labelled with Hallmark's name and logo, as well as the name "Personal Touch", on the back. (*E.g.*, Exhibit A1.) Each of them is copyrighted. (*Id.*)

Blue Mountain's Action for Trade Dress Infringement of Its "Look"

Several months after the introduction of Personal Touch II, Blue Mountain commenced this action in the District of Colorado, claiming that the overall appearance or "look" (defined as quoted above) of its AireBrush Feelings and WaterColor Feelings cards constituted a "trade dress" that could be protected under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and that Hallmark's Personal Touch II cards infringed that trade dress.[5]

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5 Blue Mountain alleged in its original complaint that the district court had jurisdiction over Blue Mountain's Lanham Act claim pursuant to 15 U.S.C. § 1121 and 28 U.S.C. § 1338(a). Blue Mountain also alleged a cause of action for unfair competition under Colorado law that was not before the court of appeals and is not at issue here.

Blue Mountain simultaneously moved for a preliminary injunction against continued publication of Hallmark's Personal Touch II cards. After a hearing, the district court issued an order on November 20, 1986, granting a preliminary injunction against the publication of 83 enumerated cards. *Hartford House, Ltd. v. Hallmark Cards, Inc.*, 647 F. Supp. 1533 (D. Colo. 1986) (App. B).

Blue Mountain's original complaint also claimed infringement of the copyrights of the individual cards in its two lines. Blue Mountain did not rely on copyright when it sought the preliminary injunction, 647 F. Supp. at 1536 (App. B at 16a), and later dropped its copyright infringement claim.

The District Court's Decision

In his opinion granting the motion for a preliminary injunction, the district court recited the ten features (quoted at pages 5-6 above) claimed by Blue Mountain as its trade dress. 647 F. Supp. at 1539 (App. B at 21a-22a). Correctly discerning that these features described the paper, words, and art work which together constitute a greeting card, the district court noted that "[p]aper, verse and ink are functional features of a greeting card." 647 F. Supp. at 1540 (App. B at 23a). The district court recognized that:

> "Functional features are not legally protected methods of identification, regardless of their association with the manufacturer, because their usefulness in identifying the product's source is outweighed by the public's interest in product refinement and development. That public interest in product improvement is served by granting competitors free access to a product's functional features."

647 F. Supp. at 1537 (App. B at 19a).

While thus acknowledging the public interest in a narrow construction of "trade dress", the district court in fact applied the Lanham Act as a super-copyright law, stating his rationale as follows:

> "One salutary purpose of the Lanham Act in this context is to protect a creative artists' rights in his or her creation and thus provide incentive to be creative."

647 F. Supp. at 1540 (App. B at 24a-25a). By attributing to the Lanham Act what is actually the purpose of copyright law, the district court opened the way to evasion of the safeguards against excessive copyright protection imposed by the Copyright Act and the Constitution.

To achieve this result of protecting artists, the district court employed the doctrine of "aggregation", under which he could deem the combination of *functional* features claimed as trade dress by Blue Mountain to be *nonfunctional*:

> "The creation and arrangement of individual product features into a particular over-all design may itself constitute a non-functional product feature.
>
> * * * *
>
> "The design and amalgamation of those [functional] features in a uniform fashion with other features, however, has produced the non-functional Blue Mountain 'look.' "

647 F. Supp. at 1539, 1540 (App. B at 22a-23a).

While the district court held that there was a Blue Mountain "look", he did not attempt to describe it—indeed, no one has been able to describe it except as "some or all" of the ten features claimed by Blue Mountain or as the style of art used on Blue Mountain's cards.[6] The court accordingly did not preliminarily enjoin Hallmark from using the undefined "look"; rather, he enjoined the publication of 83 specific greeting cards pending a trial on the merits. 647 F. Supp. at 1545 (App. B at 34a). Comparison of the enjoined cards with each other and with Blue Mountain's cards shows quite clearly how the district

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6 That the "look" is really a style of art is emphasized by the district court's finding that the "look" has been licensed by Blue Mountain for use on ceramic mugs, 647 F. Supp. at 1543 (App. B at 29a-30a), to which most of the elements of Blue Mountain's "trade dress" could not be applied.

court's intent to protect artistic endeavor was carried out: the cards do not share any uniform list of features; what they have in common is a style of art, its use in conjunction with long, emotive poetry, and the personalized, handmade effect created by their paper that gives these cards a special appeal to consumers. (*Compare* Exhibits 33A-33BBBBB and 34A-34WWW *with* A1-A94.)

The Tenth Circuit's Decision

The Tenth Circuit, in considering Hallmark's appeal, also acknowledged the public policy favoring free competition. *Hartford House, Ltd. v. Hallmark Cards, Inc.*, 846 F.2d 1268, 1272 (10th Cir. 1988) (App. A at 8a). But the court of appeals nevertheless went on to hold that Blue Mountain is entitled to be protected from competition because:

> "A combination of features may be nonfunctional and thus protectable, even though the combination includes functional features. * * * [T]he appropriate inquiry is not whether each individual feature of the trade dress is functional but whether the whole collection of features, taken together, is functional."

846 F.2d at 1272 (App. A at 8a).

The appellate court affirmed the district court's determination that Blue Mountain's "look" (which it was no better able to define than the district court) was a nonfunctional trade dress. It did so principally on the ground that alternative designs were available:

> " 'Because a function of certain products is aesthetic appeal, a feature intrinsic to the aesthetic appeal of those products may not be entitled to trademark protection. Although the determination of functional in this setting may be difficult, *the decision should nevertheless rest on whether alternative appealing designs or presentations of the product can be developed.*' "

846 F.2d at 1273 (App. A at 9a-10a), *quoting Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 519 (10th Cir. 1987) (emphasis

in original). Because the district court had found that "many design alternatives are available", the court of appeals upheld the district court's holding that the combination was nonfunctional and that "Hallmark is therefore precluded from copying or imitating this over-all appearance or look." 846 F.2d at 1274 (App. A at 13a).

In effect, the Tenth Circuit held that, if a competitor could devise any other alternative, a successful, distinctive combination of features is entitled to Lanham Act protection even if the features that are combined are functional or aesthetic. This holding makes protection for product features the rule, rather than an exception carefully limited to items protected by patent or copyright.

The court of appeals summarily rejected Hallmark's argument that the intent and effect of the injunction was to grant super-copyright protection to a non-copyrightable artistic style or idea. 846 F.2d at 1274 (App. A at 12a). But protection of a combination of elements that includes a style of art, when dealing with a product—a greeting card—of which art is the most conspicuous component, is equivalent to granting exclusive rights to that artistic style.

REASONS FOR GRANTING THE WRIT

The decisions of the courts below that the "look" of Blue Mountain's cards is entitled to perpetual protection as trade dress under the Lanham Act effectively confer upon Blue Mountain an exclusive right to make and sell emotionally expressive greeting cards that combine "some or all" of the list of functional product features claimed as its trade dress. These decisions force anyone who wishes to compete with Blue Mountain by making cards that use the same style of art, have long emotional messages, and look handmade to act at his peril. If the injunction stands, not only would Blue Mountain have a monopoly to make such cards, but it would be unlimited in time and scope. For example, this Lanham Act protection would forever forbid anyone from copying the undefined "look" of

any Blue Mountain card, even though no copyright was infringed and even after the card's copyright had long expired.

This grant of perpetual protection to an entire product finds no warrant in the language of the Lanham Act, which was enacted in 1946 principally to provide for trademark registration and enforcement.[7] The 46 sections of the Act provide a detailed scheme of trademark protection, but the most minute scrutiny of its provisions will disclose no reference to trade dress or the protection of unregistered product features.

Section 43(a) of the Lanham Act continued the prohibition of the Trademark Act of 1920 against "false designations of origin" (always understood as false *geographic* designations),[8] and added a new prohibition against "any false description or representation." While its legislative history is obscure, the new phrase was generally agreed to be aimed at false advertising by use of, in the language of the statute, "words or symbols tending falsely to describe" a product.[9]

Building on this slender base, beginning with unregistered common law marks and misleading advertising and packaging, the lower federal courts have over the last forty years built up an entire federal common law of unfair competition never contemplated in 1946. The lower courts have embraced and embroidered this new cause of action with an enthusiasm that

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7 *Burger King of Florida, Inc. v. Hoots*, 403 F.2d 904, 908 (7th Cir. 1968).

8 Act of March 19, 1920 ch. 104, § 3, 41 Stat. 534 (superseded by Lanham Act of 1946 § 43(a)). Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), is quoted in full at pages 2-3 above.

9 *See* Derenberg, *Federal Unfair Competition Law at the End of the First Decade of the Lanham Act: Prologue or Epilogue*, 32 N.Y.U. L. Rev. 1029, 1034-37 (1951). *See also* Callman, *False Advertising as a Competitive Tort*, 48 Colum. L. Rev. 876, 877-85 (1948). *See also Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 700-01 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982).

obviously feeds on itself.[10] These cases are having a nationwide impact on competition in all kinds of products and services, and have come to represent a major aspect of federal regulation of commercial activity.

With dozens of judges inventing freely without guidance from the statute or any decision of this Court, the results vary widely. This case represents an extreme end of the spectrum. Without any statutory authority for giving trademark protection to the appearance of a product, much less to features of a product, the courts below have defined Blue Mountain's entire product as its own trademark, creating a super-copyright in a "look". These decisions are in direct conflict with the Constitution and with the Copyright Act, which specifically applies to the greeting cards in question. Few other circuits have yet gone so far, but the decision illustrates the need for this Court to grant a writ of certiorari to determine whether the courts that have taken the Lanham Act into conflict with the Constitution should be brought back into line with those that have not.

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10 Only five district court decisions in which claims were brought under Section 43(a) were reported before 1955. The increasing federalization of unfair competition law is reflected in the dramatic rise in the number of district court decisions under Section 43(a) since then:

1955-1964:	29 reported decisions (2.9 per year)
1965-1974:	107 reported decisions (10.7 per year)
1975-1984:	537 reported decisions (53.7 per year)
1985-1987:	298 reported decisions (99.3 per year)

Source: Lexis search, August 1988. The number of reported decisions may safely be assumed to lag considerably behind the number of case filings.

I

IT IS CONTRARY TO THE PATENT/COPYRIGHT CLAUSE OF THE CONSTITUTION TO USE THE THEORY OF TRADE DRESS TO CONFER UPON A SINGLE MANUFACTURER AN EXCLUSIVE, PERPETUAL RIGHT TO MAKE A PRODUCT

The product monopoly granted by the courts below to Blue Mountain as a reward for its artistic efforts is not only lacking any foundation in statute, but is also directly contrary to the Constitution.

The patent/copyright clause of Article I, Section 8 of the Constitution is rooted in "this Nation's historical antipathy to monopoly", *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530 (1972), and sets forth the only conditions under which a product monopoly may be granted by federal law.[11] *Lear, Inc. v. Adkins*, 395 U.S. 653, 663 (1969) ("[T]he Sherman Act made it clear that the grant of monopoly power to a patent owner constituted a limited exception to the general federal policy favoring free competition."). The clause represents a compromise, under which the public obtains the benefits of invention and originality in return for conferring strictly limited protection upon authors and inventors. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 546 (1985); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 428-29, 431-32 (1984); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127-28 (1932).

This same constitutional policy dictates that a product *not* protected be open to unfettered competition. In *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 122 (1938), Justice Brandeis acknowledged that "Kellogg Company is undoubtedly sharing * * * in a market which was created by the skill and judgment of plaintiff's predecessor," but concluded that "that is not unfair" because:

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11 The relevant portion of Article I, Section 8 is quoted at page 2 above.

> "Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested."

305 U.S. at 122, *quoted in Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964).

Blue Mountain's cards are protected, for the statutory period and to the extent they embody concrete expressions rather than artistic styles or concepts, by copyrights, infringement of which is not claimed. What the courts below gave Blue Mountain, however, exceeds any protection afforded by the Copyright Act: The "look" of its cards—defined to mean the entire product—is forever immune from imitation. The Constitution did not contemplate that Congress could go so far, and it has not. Nor has this Court ever sanctioned the extension of such protection by the courts.

For over a century and a half this Court has emphasized the limited breadth and duration of a patent or copyright monopoly. *E.g.*, *Pennock v. Dialogue*, 27 U.S. 1, 16-17 (1829) ("this exclusive right shall exist but for a limited period"); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896), *quoted in Kellogg Co.*, *supra*, 305 U.S. at 120 ("on the expiration of a patent the monopoly granted by it ceases to exist * * *. It is upon this condition that the patent is granted."); *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966) ("Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain * * *"); *Goldstein v. California*, 412 U.S. 546, 560 (1973) ("Art. I, § 8, cl. 8 * * * provides that copyrights may only be granted 'for limited Times.' "); *Harper & Row, Publishers*, *supra*, 471 U.S. at 546, *quoting Sony Corp.*, *supra*, 464 U.S. at 429 (purpose of patent/copyright clause is " 'to allow the public access to the products of [authors' and inventors'] genius after the limited period of exclusive control has expired.' ").

The Court has been vigilant to hold Acts of Congress to this strict standard. *Graham*, *supra*, 383 U.S. at 5-6 ("The Congress in the exercise of the patent power may not overreach the

restraints imposed by the stated constitutional purpose."). It has been even more careful not to allow judge-created law to wander from the constitutional mandate:

> "The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme."

Sony Corp., supra, 464 U.S. at 431.

> "[W]e should not expand patent rights by overruling or modifying our prior cases construing the patent statutes unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language."

Deepsouth Packing Co., supra, 406 U.S. at 531. Here, however, the Tenth Circuit's expansion of the reach of judicially-created privilege is based, at best, on inference from a statute that does not even mention this type of protection.

As noted above, Blue Mountain does not assert infringement of the individual copyrights of its cards. What it seeks, and what the courts below have given it, is something much broader: perpetual protection, not of any particular design or expression, but of the "look" of its line of cards on the basis of the combination of a number of commonplace elements.[12] This result flies in the face not only of the Copyright Act (*see* Part II below), but also of the fundamental principle that:

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12 Courts have been very cautious in granting protection to a combination of elements which may not themselves be patented or copyrighted. While compilations may be copyrighted, 17 U.S.C. § 103, and novel and extraordinary combinations may be patented, *Deepsouth Packing Co., supra*, 406 U.S. at 521-22, such protection is afforded only when "a novel union of old means [is] designed to achieve new ends." *Id.* The Court has stated that:

> "We would require a clear and certain signal from Congress before approving the position of a litigant who, as respondent here, argues that the beachhead of privilege is wider, and the area of public use narrower, than courts had previously thought."

Id. at 531. And, of course, such compilation copyrights and combination patents are granted only for limited times.

> " 'Federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.' "

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974), *quoting Lear, Inc., supra*, 395 U.S. at 668. *Accord, Sears, Roebuck & Co., supra*, 376 U.S. at 231.

The only justification advanced by the Tenth Circuit for its extension of this drastic protection to the combination of elements claimed by Blue Mountain—which add up to its entire product—is that the district court had found that Hallmark could "feasibly" produce some sort of emotionally expressive greeting cards without using those features. 846 F.2d at 1274-75 (App. A at 10a-11a). But that argument was effectively demolished in *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), where the Court stated that, even though features of an unpatentable lighting fixture had acquired secondary meaning, state law could not prohibit their being "copied at will":

> "That an article copied from an unpatented article *could be made in some other way*, that the design is 'nonfunctional' and not essential to the use of either article, that the configuration of the article copied may have a 'secondary meaning' which identifies the maker to the trade, or that there may be 'confusion' among purchasers as to which article is which or as to who is the maker, may be relevant evidence in applying a State's law requiring such precautions as labeling; however, and regardless of the copier's motives, *neither these facts nor any others can furnish a basis for imposing liability for or prohibiting the actual acts of copying and selling*."

Id. at 238 (emphasis added). Hallmark's cards do not infringe Blue Mountain's copyrights and are clearly labelled on the back to identify Hallmark as the maker. That Hallmark is assumed to have been capable of designing different cards does not justify banning these.

In *Sony Corp., supra*, 464 U.S. 417, the Court declined to extend copyright protection to prohibit the sale of video

recorders, emphasizing that the limited monopoly provided by the law should be allowed only:

> "to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."

Id. at 429. Stating that "[o]ne may search the Copyright Act in vain for any sign that the elected representatives of the millions of people who watch television every day have made it unlawful" to use such recorders, the Court refused so to extend the statute. *Id.* at 456.

One may similarly search the Lanham Act in vain for any sign that Congress intended to provide to products, on account of their appearance, perpetual protection under federal law that is denied for original expression or invention. Blue Mountain already has the "special reward", *id.* at 428, of copyright protection. The Court should issue a writ of certiorari to determine whether the Constitution sanctions giving Blue Mountain's products the additional, unlimited protection provided by the courts below.

II

IT IS CONTRARY TO THE POLICY EXPRESSED IN THE COPYRIGHT ACT TO USE THE THEORY OF TRADE DRESS TO GIVE A MANUFACTURER AN EXCLUSIVE RIGHT TO AN IDEA OR STYLE OF ART

When Congress amended the Copyright Act in 1976, it made clear that protection extended to concrete expressions "fixed in a tangible medium", 17 U.S.C. § 102(a), codifying the fundamental rule that "in no case" does protection extend to "any idea, procedure, process, system, method of operation, concept, principle, or discovery." 17 U.S.C. § 102(b).[13] This was a deliberate policy choice informed by decades of experience and

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13 Section 102(b) of the Copyright Act is quoted in full at page 3 above.

by overriding constitutional considerations. It is anomalous to suppose that Congress could have intended that Section 43(a) of the Lanham Act would nevertheless supply protection even broader than copyright for the style, idea, or "look" of copyrighted greeting cards.[14]

There is no doubt that Blue Mountain's "look", whatever it may be, is squarely within the sphere of copyright. The district court could not define the "look", but protected it in order to encourage and reward Blue Mountain's artistic and creative endeavors. 647 F. Supp. at 1540 (App. B at 24a-25a).[15] While the Tenth Circuit tried to rationalize that the "look" consists of the "artistic expressions" plus unspecified "other features", 846 F.2d at 1274 (App. A at 11a), a search for a shared quality of the allegedly infringed and infringing cards shows that the "look" can be little more than the style of art used on the front of Blue Mountain's cards. Indeed, the hundreds of cards in Blue Mountain's two lines could not all look alike: what they have in common is the style of the art work. Nor is it easy to see how any element of the "look" other than the style of art could have been licensed by Blue Mountain for use on ceramic mugs. *See* 647 F. Supp. at 1543 (App. B at 30a). The elements of Hallmark's Personal Touch II cards said to resemble Blue Mountain's thus fall into the realm of artistic style, which has long been in the public domain. *Franklin Mint Corp. v. National*

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14 The Copyright Act does not, of course, preempt rights or remedies under other federal statutes. 17 U.S.C. § 301(d) (1977). When the Copyright Act was amended in 1976, however, Congress specifically rejected a proposal to extend protection to "ornamental designs of useful articles." House Committee on the Judiciary, Copyright Act of 1976, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 50, *reprinted in* 1976 U.S. Code Cong. & Admin. News 5659, 5663.

15 Blue Mountain itself defined the "look" as item 10 of its list of so-called trade dress features:

> "The look of the cards primarily characterized by backgrounds of soft colors done with airbrush blend or light watercolor strokes, usually depicting simple contrasting foreground scenes superimposed in the background."

846 F.2d at 1270 (App. A at 4a); 647 F. Supp. at 1539 (App. B at 22a).

Wildlife Art Exchange, Inc., 575 F.2d 62, 66 (3d Cir.), *cert. denied*, 439 U.S. 880 (1978).[16]

This understanding of Blue Mountain's "look"—together with the fact that no individual Blue Mountain card was copied by Hallmark—explains why Blue Mountain could not bring this case under the Copyright Act. Copyright law permits only particular expressions of an idea, not the idea itself, to be protected. *See, e.g.*, 17 U.S.C. § 102(b)(1976); *Mazer v. Stein*, 347 U.S. 201, 217-18 (1954); *Holmes v. Hurst*, 174 U.S. 82, 86 (1899). Thus, the law may not prevent one from imitating the thematic concept of another's product. *Franklin Mint Corp., supra*; *Reyher v. Children's Television Workshop*, 533 F.2d 87, 91 (2d Cir.), *cert. denied*, 429 U.S. 980 (1976). This idea/expression dichotomy—rooted both in policy and in the First Amendment—enables the law to reconcile the author's interest in profiting from his writings with society's interest in the free flow of ideas. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 428-29 (1984); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964). *See Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 556 (1985) ("copyright's idea/expression dichotomy 'strike[s] a definitional balance between the First Amendment and the Copyright Act * * *' ").

By holding that the Lanham Act prevents anyone from imitating Blue Mountain's "look", the courts below—intent, apparently, on protecting "creative artists", 647 F. Supp. at 1540 (App. B at 24a-25a)—have effectively enjoined Hallmark, not from copying copyrightable features or expressions, but rather from using the general idea or "look" of a seemingly handmade, emotionally expressive greeting card. It is as if only one publishing company could market romance novels; or only

16 Even if Blue Mountain's "look" is something other than an artistic style, it is, at most, a pattern or formula according to which greeting cards can be produced, and as such, would be disqualified from copyright protection. *See McMahon v. Prentice-Hall, Inc.*, 486 F. Supp. 1296, 1302-03 (E.D. Mo. 1980); *McGraw-Hill, Inc. v. Worth Publishers, Inc.*, 335 F. Supp. 415, 420 (S.D.N.Y. 1971).

one artist could be a cubist; or only one musician could play ragtime.

The courts below have enabled Blue Mountain to obtain through a judicially created gloss of the Lanham Act what it is absolutely forbidden under the Copyright Act. The Court should grant a writ of certiorari to restore the balance established by Congress between these two statutes.

III

CONFLICTING APPLICATIONS OF THE THEORY OF TRADE DRESS BY THE LOWER COURTS THREATEN TO ERODE COMPETITION

In the forty-two years since the enactment of the Lanham Act, the Court has never decided a case under Section 43(a). Having long ago departed from the text of that statute, and lacking the guidance that only this Court can provide, the lower courts, like the sorcerer's apprentice, have lost control of the trade dress theory with which they have been conjuring. The resulting explosion of litigation (see n. 10 above) has erected arbitrary barriers around more and more products, to the detriment of competition.

Some lower courts have been sensitive to the need to limit the application of the Lanham Act to prevent "trademarks from serving as the substitutes for patents" or copyrights. *See A.J. Canfield Co. v. Honickman*, 808 F.2d 291, 305 (3d Cir. 1986) (chocolate flavored beverage), *citing Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), *and Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). As the Second Circuit explained:

> "Courts must proceed with caution in assessing claims to unregistered trademark protection in the design of products so as not to undermine the objectives of the patent laws. * * * Since trademark protection extends for an unlimited period, expansive trade dress protection for the

design of products would prevent some functional products from enriching the public domain.

> "This threat is particularly great when, as in the instant case, a first manufacturer seeks broad trade dress protection for a product on the ground that its arrangement of predominantly functional features is distinctive."

Stormy Clime Ltd. v. Progroup, Inc., 809 F.2d 971, 977-78 (2d Cir. 1987) (golf jacket).

As courts began to expand the theory of trade dress to embrace actual product features in the late nineteen-seventies, some limitation was obviously needed to protect free access to features which are desired by consumers for their own sake, not because they denote origin. Otherwise, such features could be removed from the public domain whenever consumers might come to associate them with a particular source, as might well occur with innovative or heavily advertised products. The test adopted to reconcile trademark law with the " 'overriding public policy of preventing * * * monopolization, [and] preserving the public right to copy,' " was the test of "functionality". *Stormy Clime, Ltd., supra*, 809 F.2d at 978, *quoting In re Deister Concentrator Co., Inc.*, 289 F.2d 496, 504 (Cust. & Pat. App. 1961).

It proved easier to conceive of the functionality test than to apply it. The circuits are not only split, but are also in internal disarray over how to define "functional", and they do not agree on whether (and with what limitations) a distinctive combination of functional features may be deemed nonfunctional. The doctrine of functionality holds that:

> "Reproduction of a functional attribute is legitimate competitive activity."

Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 863 (1982) (White, J., concurring). In the hands of the lower courts, however, it has become a patchwork of conflicting result-oriented definitions that no longer reliably serves its purpose of protecting the public interest in free competition to offer desired features.

A. A Product Feature Desired By Consumers Is Functional Even If Alternatives Could Be Devised

In *Inwood Laboratories, Inc.*, *supra*, 456 U.S. at 850 n.10, the Court stated in *dictum* that:

> "In general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article."

Id.[17] This definition of functionality, by referring to the utility, purpose, cost and "quality" of an article, encompasses all product characteristics—apart from source identification—that may make consumers want to buy it. To serve its policy objectives, this is what the functionality doctrine must do. Such characteristics are in the public domain, and remain so even if the result may be some degree of confusion. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir. 1986) (stuffed toy animals) ("[w]hen a feature or combination of features is found to be functional, it may be copied and the imitator may not be enjoined from using it, even if confusion in the marketplace will result").

Many of the courts of appeals have, in harmony with *Inwood Laboratories*, based functionality decisions on consumer demand. *E.g.*, *Prufrock Ltd. v. Lasater*, 781 F.2d 129, 133-34 (8th Cir. 1986) (features of restaurant's design and operating methods were functional because these elements were "related to consumer demand for the [product's] concept"); *International Order of Job's Daughters v. Lindeburg*, 633 F.2d 912, 917 (9th Cir. 1980), *cert. denied*, 452 U.S. 941 (1981) (jewelry) ("[t]rademark law does not prevent a person from copying so-called 'functional' features of a product which constitute the actual benefit that the consumer wishes to purchase, as distin-

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17 *Inwood Laboratories* concerned the intentional copying by a generic drug manufacturer of the appearance of another's capsules after the expiration of a patent, and whether such imitation violated Section 32 of the Lanham Act, 15 U.S.C. § 1114. Reversing the Second Circuit, this Court reinstated the district court's refusal to enjoin the generic manufacturer. The case was not decided under Section 43(a) of the Lanham Act, and does not endorse the expansion of Section 43(a) to cover product features.

guished from an assurance that a particular entity made, sponsored, or endorsed a product").

Panels of other circuits have departed to one degree or another from *Inwood Laboratories*, with increasingly anticompetitive results. One faction, which includes the Tenth Circuit and occasionally the Second Circuit, makes functionality a test of the alternatives available to competitors, so that a product feature is considered functional only if no alternative design could be devised. *E.g.*, *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 519-21 and n.4 (10th Cir. 1987) (finding a feature of a fishing reel to be functional because "no evidence indicates that any [alternative design] would be unmarketable"); *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 77 (2d Cir. 1985).[18]

In affirming the district court's injunction in this case, the Tenth Circuit applied the standard it had earlier formulated in *Brunswick Corp.*, holding that the critical factor in determining functionality is whether "alternative appealing designs or presentations of the product can be developed", 846 F.2d at 1273 (App. A at 10a), largely because the district court had determined that there were "many design alternatives" available to Hallmark. 846 F.2d at 1274 (App. A at 11a).

This "alternative design" standard undermines the purpose of the functionality doctrine because it takes no account of whether consumers *want* a particular feature. Rather, it insists on proof negating the possibility that a competitor could per-

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18 The Second Circuit has veered from one standard to another. In *Industria Arredamenti Fratelli Saporiti v. Charles Craig, Ltd.*, 725 F.2d 18 (2d Cir. 1984), the court sanctioned an imitation of the design of a sofa on the ground that the configuration of the product was functional because it contributed to its commercial success. *Id.* at 20. One year later, in *LeSportsac*, the Second Circuit questioned the applicability of the "important ingredient" standard in a case involving a sports bag. 754 F.2d at 77-78. In *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971 (2d Cir. 1987), the court reemphasized the functionality tests set forth by this Court in *Inwood Laboratories* in assessing a golf jacket design.

suade consumers to want some *different* feature.[19] The effect is to shift the legal presumption with regard to the imitation of product features: competitors are required to attempt to create new consumer tastes and desires before they may respond to existing ones. Because there will nearly always be some plausible suggestion of an alternative design, competitors would have to try and fail to sell alternative product features before they would have the theoretical right, if they still cared to try, to compete by offering consumers what they want.

Such a rule is inconsistent with the law's long-settled preference for competition over protection, even if there is some temporary cost in terms of marketplace confusion. As the Ninth Circuit stated in rejecting an "alternative design" standard in 1952:

> "The attractiveness and eye-appeal of the design sells the china. * * * The granting of relief in this type of situation would render Wallace immune from the most direct and effective competition with regard to these lines of china. * * * [T]o imitate is to compete in this type of situation. Of course, Tepco can also compete by developing designs even more aesthetically satisfying, but the possibility that an alternative product might be developed has never been considered a barrier to permitting imitation competition in other types of cases."

Pagliero v. Wallace China Co., Ltd., 198 F.2d 339, 343-44 (9th Cir. 1952).

The decisions below demonstrate clearly the danger in applying an inappropriate standard of functionality. The card fea-

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19 The Tenth and Second circuits have also made the functionality standard unjustifiably onerous for defendants by classifying functionality as a defense and allocating to defendants the burden of establishing the absence of competitive alternatives. *See Brunswick Corp., supra*, 832 F.2d at 520; *LeSportsac Inc., supra*, 754 F.2d at 76. The other circuits which have spoken on the question appear to require the plaintiff to establish the nonfunctionality of the allegedly infringed feature or design as an element of his case. *E.g. Ciba-Geigy Corp. v. Bolar Pharmaceutical Co.*, 747 F.2d 844, 854 (3d Cir. 1984), *cert. denied*, 471 U.S. 1137 (1985) (pharmaceutical capsules).

tures claimed by Blue Mountain represent what the public wants in an emotionally expressive greeting card. (Tr. 197-98.) The Tenth Circuit decision uses the theory of trade dress to foreclose competition in providing those features to the public. To preserve the purpose of the functionality rule—the protection of competition—the Court should bring the lower courts back into line with its definition in *Inwood Laboratories*.

B. Aggregations Of Functional Features Should Not Be Protected By Calling Them Nonfunctional

The decision below allies the Tenth Circuit with those courts that have allowed a distinctive aggregation of functional features to be classified as nonfunctional, and thus protected by the Lanham Act. Indeed, the Tenth Circuit refused even to consider the functionality of the individual features of Blue Mountain's claimed trade dress. 846 F.2d at 1274 (App. A at 12a). In so doing, the court failed to realize the critical difference between a "features protection" case and the more traditional case in which protection is not claimed for the product itself, but for its packaging or advertising. Where protection of actual product features is sought, heightened vigilance is required to protect the public interest.

The most influential "aggregation" case, relied upon by both courts below, is *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200 (2d Cir. 1979), in which the plaintiff complained that use of its cheerleaders' uniform in advertising and exhibiting a pornographic film infringed and diluted its trademark rights in that uniform under Section 43(a) of the Lanham Act. In affirming an injunction against distribution of the film, the court found "the particular combination of colors and collocation of decorations that distinguished plaintiff's uniform from those of other squads" to be nonfunctional and thus protected under Section 43(a). 604 F.2d at 204. Properly viewed, *Dallas Cowboys* should be considered a false advertising or packaging case (a uniform is like a logo or package for a

sports team), and is thus not authority for aggregating functional product features into a common law trademark.[20]

A far different approach to aggregation claims is needed in product feature cases. In *Prufrock Ltd., Inc., supra*, 781 F.2d 129, the Eighth Circuit considered a claim of Section 43(a) protection for a collection of restaurant features and operating methods that was alleged to be confusingly similar to the "look" of plaintiff's restaurants and their "down home country cooking" motif. Plaintiff's supposed "trade dress" encompassed the key elements of its restaurant: kitchen and bar layout, seating arrangements, wallpaper styles, light fixture styles, and wall decor. The Eighth Circuit dissolved a preliminary injunction, holding that each of these features helped to realize the "concept" of a country restaurant, which was the "product" being offered to the public. They were therefore functional:

> "[A]ny element of a restaurant's trade dress that advances the concept cannot be protected because those elements are related to the consumer demand for the concept. * * * Indeed, by protecting the trade dress that creates the concept, this court would be protecting the concept itself."

781 F.2d at 134. The features were no less functional because they were an "aggregation".[21] The Court did not feel compelled to inquire into whether consumers might like another "country cooking" motif equally well.

The list of features sought to be protected in this case is similarly an aggregation of the elements that make up Blue Mountain's greeting cards. Faced with a similar claim involving a

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20 The Eleventh Circuit accepted an aggregation argument in *Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1538 (11th Cir. 1986), a case clearly related to the "individual elements of *packaging*" (emphasis added) of an ice cream bar.

21 The Ninth Circuit reached an opposite result by applying an aggregation rationale to a case involving restaurant decor in *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 842 (9th Cir. 1987). That decision was distinguished by the Eighth Circuit in *Prufrock Ltd., Inc.*, 781 F.2d at 134.

combination of elements of a golf jacket, the Second Circuit vacated a preliminary injunction and remanded because:

> "[T]he functionality inquiry in the present case should have focussed on whether bestowing trade dress protection upon Stormy Clime's arrangement of features 'will hinder competition or impinge upon the rights of others to compete effectively in the sale of goods.' "

Stormy Clime, Ltd., supra, 809 F.2d at 977, *quoting Sicilia di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429 (5th Cir. 1984) (shape of lemon juice bottle). The Tenth Circuit did nothing of the sort in holding that an aggregation of "some or all" of its claimed features constitutes the protected "look" of Blue Mountain. 846 F.2d at 1274 n.4 (App. A at 12a n.4). But those features are equally functional as an aggregation as they are individually, and should not be immunized from competition merely because they are combined.

The result reached by the Tenth Circuit demonstrates the result-oriented confusion in the lower courts that has permitted application of the theory of trade dress to functional product features. Guidance from the Court will be required to avoid further erosion of free competition by such interpretations of Section 43(a) of the Lanham Act.

Conclusion

For all of the foregoing reasons, the petition for a writ of certiorari should be granted.

August 1988

Respectfully submitted,

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APPENDIX A

FILED
United States Court of Appeals
Tenth Circuit

May 24, 1988

Robert L. Hoecker
Clerk

PUBLISH

UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

No. 86-2748

HARTFORD HOUSE, LTD., a Colorado corporation, d/b/a BLUE MOUNTAIN ARTS, SUSAN POLIS SCHUTZ, and STEPHEN SCHUTZ,

Plaintiffs-Appellees,

—v.—

HALLMARK CARDS, INCORPORATED, a Missouri corporation, and HALLMARK MARKETING CORPORATION,

Defendants-Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO
(D.C. Civil Action No. 86-C-1458)

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Hallmark Cards, Inc., Kansas City, Missouri, with him on the briefs), for Defendants-Appellants.

Harry G. Melkonian of White & Case, Los Angeles, California (James B. Hicks and Kathleen M. White of White & Case, Los Angeles, California; and Steve C. Briggs of Hutchinson, Black, Hill & Cook, Boulder, Colorado, with him on the brief), for Plaintiffs-Appellees.

Before

HOLLOWAY and MCKAY, Circuit Judges,
and BURCIAGA,* District Judge.

MCKAY, Circuit Judge.

I.

Plaintiffs, Susan Polis Schutz, Stephen Schutz, and Hartford House, Ltd., d/b/a Blue Mountain Arts (hereinafter collectively referred to as "Blue Mountain"), are in the greeting card business. Presently, Blue Mountain's two major lines of cards are entitled "AireBrush Feelings" and "WaterColor Feelings." These lines have been on the market since 1981 and 1983, respectively, and contain non-occasion emotional messages concerning love, personal relationships, and other similar subjects, superimposed on watercolor or airbrush artwork that generally has a landscape motif or nature theme.

Defendants, Hallmark Cards, Incorporated, and Hallmark Marketing Corporation (hereinafter collectively referred to as "Hallmark"), have produced and marketed greeting cards for more than seventy-five years. One of Hallmark's lines of cards is known as "Personal Touch," which, like Blue Mountain's cards, conveys emotional messages about personal relationships.

Blue Mountain brought this action against Hallmark, alleging that Hallmark's "Personal Touch" line of greeting cards,

* Honorable Juan G. Burciaga, United States District Judge for the District of New Mexico, sitting by designation.

designed and distributed for sale beginning in April 1986, is deceptively and confusingly similar to Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" lines. Blue Mountain asserts that Hallmark has violated section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982),[1] and is guilty of unfair competition and copyright infringement.

In the proceedings below, Blue Mountain sought a preliminary injunction to enjoin Hallmark from manufacturing and marketing its "Personal Touch" line during the pendency of this action. Pertinent to this request, Blue Mountain claimed that Hallmark's "Personal Touch" cards infringed the protected trade dress of Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" lines.

The district court studied the materials presented by the parties, held an evidentiary hearing, and made preliminary findings of facts and conclusions of law, reported at *Hartford House Ltd. v. Hallmark Cards Inc.*, 647 F. Supp. 1533 (D. Colo. 1986). Among the district court's findings not challenged on this appeal are the following: Blue Mountain has been a successful leader in that part of the greeting card business aimed at expressing strong, non-occasion personal emotions. Hallmark was aware of the commercial success of Blue Mountain's cards and viewed Blue Mountain as a serious competitive threat. In early 1986, Hallmark mounted an intense effort to capture the emotionally expressive non-occasion greeting card market and designed and marketed its "Personal Touch" cards to appeal to the same type of consumers who purchase Blue Mountain's cards.

The district court also found that the "AireBrush Feelings" and "WaterColor Feelings" cards have an inherently distinctive and highly uniform overall appearance that is recognizable and

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1 Section 43(a) provides in part:

> Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same . . . shall be liable to a civil action . . . by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

attributable to Blue Mountain. According to the district court, some or all of the following features comprise that overall look:

1. A two-fold card containing poetry on the first and third pages.
2. Unprinted surfaces on the inside three panels.
3. A deckle edge on the right side of the first page.
4. A rough-edge stripe of color, or wide stripe, on the outside of the deckle edge of the first page.
5. A high-quality, uncoated, and textured art paper for the cards.
6. Florescent ink for some of the colors printed on the cards.
7. Lengthy poetry, written in free verse, typically with a personal message.
8. Appearance of hand-lettered calligraphy on the first and third pages with the first letter of the words often enlarged.
9. An illustration that wraps around the card and is spread over three pages, including the back of the card.
10. The look of the cards primarily characterized by backgrounds of soft colors done with air brush blends or light watercolor strokes, usually depicting simple contrasting foreground scenes superimposed in the background.

Id. at 1539.

The district court then analyzed the pertinent law and granted Blue Mountain's motion for preliminary injunction. Specifically, the district court ordered that Hallmark be "enjoined and restrained, pending a trial on the merits[,] from producing, manufacturing, marketing, advertising, promoting, offering for sale, selling or distributing" eighty-three "Personal Touch" cards. *Id.* at 1545. The district court then listed the eighty-three cards which were the subject of the injunction. Hallmark appeals the district court's grant of the preliminary injunction.

II.

A district court may issue a preliminary injunction if the moving party establishes:

> (1) substantial likelihood that the movant will eventually prevail on the merits; (2) a showing that the movant will suffer irreparable injury unless the injunction issues; (3) proof that the threatened injury to the movant outweighs whatever damage the proposed injunction may cause the opposing party; and (4) a showing that the injunction, if issued, would not be adverse to the public interest.

Lundgrin v. Claytor, 619 F.2d 61, 63 (10th Cir. 1980). The scope of appellate review of a district court's discretionary grant of a preliminary injunction is narrow. Unless the district court abuses its discretion, commits an error of law, or is clearly erroneous in its preliminary factual findings, the appellate court may not set aside the injunction. *City of Chanute v. Kansas Gas & Electric Co.*, 754 F.2d 310, 312 (10th Cir. 1985); *Kenai Oil & Gas, Inc. v. Department of the Interior*, 671 F.2d 383, 385 (10th Cir. 1982); *Otero Savings & Loan Association v. Federal Reserve Bank*, 665 F.2d 275, 276 (10th Cir. 1981). "The merits . . . may be considered on appeal only insofar as they bear on the issue of judicial discretion." *Otero*, 665 F.2d at 276-77.

On this appeal Hallmark does not challenge the district court's findings that Blue Mountain will suffer irreparable injury unless the preliminary injunction issues, that the threatened injury to Blue Mountain outweighs whatever damage the injunction may cause Hallmark, and that the preliminary injunction would not be adverse to the public interest. Rather, Hallmark's appeal pertains to the district court's finding that Blue Mountain has established a substantial likelihood that it will eventually prevail on the merits of its trade dress infringement claim under the Lanham Act.[2]

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2 In *Otero*, 665 F.2d at 278, this court stated that the Tenth Circuit has adopted the liberal definition of the "probability of success" requirement. "When the other three requirements for a preliminary injunction are

III.

A federal cause of action for unprivileged imitation, including trade dress infringement, is available under section 43(a) of the Lanham Act. *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 516-17 (10th Cir. 1987); *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983). "Although historically trade dress infringement consisted of copying a product's packaging, . . . 'trade dress' in its more modern sense [may] refer to the appearance of the [product] itself . . . ." *Brunswick*, 832 F.2d at 517 (quoting *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1140-41 (3d Cir. 1986)); *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 (2d Cir. 1985).

> Trade dress is a complex composite of features. One may be size, another may be color or color combinations, another may be texture, another may be graphics and arrangement and so on. Trade dress is a term reflecting the overall general impact, usually visual, but sometimes also tactile, of all these features taken together.

SK&F Co. v. Premo Pharmaceutical Laboratories, Inc., 481 F. Supp. 1184, 1187 (D.N.J. 1979), *aff'd*, 625 F.2d 1055 (3d Cir. 1980); *accord Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 841 (9th Cir. 1987) (total visual image); *Clarke Checks*, 711 F.2d at 980; *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 503 F. Supp. 647, 648-49 (S.D.N.Y. 1980) (product design and format, words, symbols, collection of colors and designs). The district court described Blue Mountain's

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satisfied, 'it will ordinarily be enough that the plaintiff has raised questions going to the merits so serious, substantial, difficult and doubtful, as to make them a fair ground for litigation and thus for more deliberate investigation.' " *Id.* (quoting Continental Oil Co. v. Frontier Refining Co., 338 F.2d 780, 782 (10th Cir. 1964)). In view of the district court's determination that Blue Mountain demonstrated a substantial likelihood of success on the merits of its trade dress infringement claim under the Lanham Act and in view of our holding in this case, it is unnecessary to address Blue Mountain's argument that it can resort to *Otero* and establish that prong of the requirements for a preliminary injunction.

trade dress as a combination of some or all of ten features listed above, which produces an overall uniform look and distinctive appearance of Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" lines of cards.

A product's trade dress is eligible for protection under section 43(a) if it is so distinctive as to become, in effect, an unregistered trademark. *Brunswick*, 832 F.2d at 516-17. For a plaintiff to establish unprivileged imitation, prevail on a trade dress infringement claim, and thus prevent copying of the appearance of a product, (1) the trade dress, whether a single feature or a combination of features, must be nonfunctional; (2) the trade dress must have acquired a secondary meaning; and (3) there must be a likelihood of confusion among consumers as to the source of the competing products.[3] *Brunswick*, 832 F.2d at 517.

In considering the merits of Blue Mountain's trade dress infringement claim for purposes of determining Blue Mountain's likelihood of success on the merits, the district court determined that the overall appearance or arrangement of features, i.e., the trade dress, of Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" lines of greeting cards was nonfunctional and had acquired a secondary meaning. The district court further determined that there was a likelihood of confusion among card purchasers as to the source of Blue Mountain's two lines and Hallmark's "Personal Touch" line. On this appeal Hallmark does not challenge the district court's preliminary determinations pertaining to secondary meaning and likelihood of confusion. Rather, Hallmark challenges the district court's determination that Blue Mountain's trade dress is nonfunctional. Consequently, our decision is limited to the resolution of the functionality issue.

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3 As *Brunswick*, 832 F.2d at 520, makes clear, if a plaintiff can show that its trade dress has acquired a secondary meaning and there is a likelihood of confusion, the trade dress is protected under section 43(a) unless the defendant can show that plaintiff's trade dress is functional. The burden of proof of functionality is on the defendant.

IV.

Recently, in *Brunswick*, 832 F.2d at 519 (quoting *Sno-Wizard Manufacturing, Inc. v. Eisemann Products Co.*, 791 F.2d 423, 426 n.3 (5th Cir. 1986)), this court enunciated the test for determining functionality: "Whether the feature is functional should turn on 'whether the protection of the [feature] would hinder competition or impinge upon the rights of others to compete effectively in the sale of goods.' "

It should be noted that the protected trade dress in *Brunswick* was a single feature: the distinctive cone-shaped front cover of a fishing reel. *Id.* at 517 n.2, 520. As indicated above, a trade dress may be a composite of several features in a certain arrangement or combination which produces an overall distinctive appearance. In this context, the question is whether the combination of features comprising the trade dress is functional. As the district court correctly stated, "[t]he creation and arrangement of individual product features into a particular overall design may itself constitute a non-functional product feature." *Hartford House*, 647 F. Supp. at 1539. A combination of features may be nonfunctional and thus protectable, even though the combination includes functional features. *See, e.g.*, *Fuddruckers*, 826 F.2d at 842 ("functional elements that are separately unprotectable can be protected together as part of a trade dress"); *American Greetings*, 807 F.2d at 1143; *Clarke Checks*, 711 F.2d at 983-84; *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203-04 (2d Cir. 1979) (particular combination of colors and collocation of decorations of cheerleading uniform). "Indeed, virtually every product is a combination of functional and non-functional features and a rule denying protection to any combination of features including a functional one would emasculate the law of trade dress infringement." *American Greetings*, 807 F.2d at 1143. Contrary to Hallmark's contention, the appropriate inquiry is not whether each individual feature of the trade dress is functional but whether the whole collection of features, taken together, is functional. *Fuddruckers*, 826 F.2d at 842 (combination of visual features that creates a distinctive visual impression is protectable); *Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531,

1538 n.25 (11th Cir. 1986), *cert. denied*, 107 S. Ct. 1983 (1987); *SK&F Co.*, 481 F. Supp. at 1187 ("The law of unfair competition in respect to trade dress requires that all of the features be considered together, not separately."). As the court stated in *LeSportsac*, 754 F.2d at 76, "by breaking LeSportsac's trade dress into individual elements and then attacking certain of those elements as functional, K mart misconceives the scope of the appropriate inquiry. . . . [LeSportsac] claims as its mark the particular combination and arrangement of design elements that identify its bags and distinguish them from other bags." The district court in this case correctly stated: "Defendants contend that the individual cards must be dissected and each feature analyzed separately for functionality. I reject that approach as alien to the policies of the Lanham Act." *Hartford House*, 647 F. Supp. at 1539.

When the *Brunswick* test is applied to a combination of features, the issue of functionality turns on whether protection of the *combination* would hinder competition or impinge upon the rights of others to compete effectively. The *Brunswick* test is explained further:

> [W]e think [this test] affords better protection to ensure that we do not discourage the "use of a spark of originality which could transform an ordinary product into one of grace." Under our test, the claim may still be made that without a particular identifying design or feature [or combination of features,] a second-comer may be less effectively able to compete. If that feature [or combination of features] must be slavishly copied in order to have an equally functional product, then the feature [or combination] is not entitled to protection. But if the feature [or combination of features] enables the second-comer simply to market his product more effectively, it is entitled to protection.
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> This interpretation does not limit functional features to those essential to a product's operation. Because a function of certain products is aesthetic appeal, a feature intrinsic to the aesthetic appeal of those products may not be entitled to trademark protection. Although the determi-

> nation of functional in this setting may be difficult, *the decision should nevertheless rest on whether alternative appealing designs or presentations of the product can be developed.*

Brunswick, 832 F.2d at 519 (citations omitted) (emphasis added).

Inasmuch as *Brunswick* was decided by this court after the district court granted the preliminary injunction in this case, the district court did not have the benefit of *Brunswick* when it analyzed the law applicable to functionality. Even so, the district court properly stated and applied the test subsequently enunciated in *Brunswick*. *See Hartford House*, 647 F. Supp. at 1540. Although the district court focused on an analysis of utilitarianism, and the *Brunswick* decision makes clear that functional features are not limited to those essential to a product's operation, the district court's overall analysis of the law and the facts of this case in arriving at its conclusion is aligned with *Brunswick* and addresses the concerns stated in that case.

Most importantly, the district court properly noted that the availability of alternative appealing designs is a key factor in determining that a trade dress is nonfunctional. *Hartford House*, 647 F. Supp. at 1540. In this respect, the district court correctly stated that "[s]ince the effect upon competition 'is really the crux of the matter,' it is of course significant that there are other alternatives available." *Id.* (quoting *In re Morton Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982)).

The district court focused on the design features of emotionally expressive non-occasion greeting cards and determined that alternative designs could be developed by Hallmark. In this regard, the district court stated:

> Further evidence that the features developed by [Blue Mountain] are nonfunctional are the infinite alternative designs available to [Hallmark]. Introduced into evidence were cards of the "highly emotional non-occasion" genre, manufactured by Hallmark and [Blue Mountain's] other competitors, with varying features quite different from [Blue Mountain's] trade dress. This is not a case where

there are a limited number of designs available, thus mandating a finding of functionality.

Id. Indeed, the evidence satisfied the district court that "it would not be difficult for Hallmark to devise distinguishing features for its ['Personal Touch'] line. Hallmark tested five different potential 'looks' for the ['Personal Touch'] line." *Id.* Hallmark, however, chose "a look so similar to Blue Mountain's that it [was] nearly impossible to differentiate between the respective card lines." *Id.* Additionally, a competitor of both Hallmark and Blue Mountain, whose testimony the district court found to be "quite credible," indicated that "there is room for innovation and profit in the emotional non-occasion greeting card market without duplicating or copying another's products." *Id.* The district court concluded, therefore, that "many design alternatives are available. There is no necessity to simulate Blue Mountain's trade dress." *Id.* Indeed, "[a]n emotional non-occasion greeting card can be folded, colored, shaped, cut, edged, and designed in infinite ways and still function to send its message." *Id.* at 1541. In light of the available alternatives, the district court further concluded that allowing Blue Mountain to exclude others from using its trade dress "will not hinder competition nor will it interfere with the rights of others to compete." *Id.* at 1540. Consequently, the district court found that the overall appearance, i.e., trade dress, of Blue Mountain's cards was nonfunctional. In the district court's words: "Paper, verse and ink are functional features of a greeting card. The design and amalgamation of those features in a uniform fashion with other features, however, has produced the non-functional Blue Mountain 'look'." *Id.*

Based on the record as it now stands, we are convinced that the district court was not clearly erroneous in finding that it is feasible for Hallmark to avoid the potential for confusion and compete effectively without having to slavishly copy or imitate the distinctive combination of features comprising Blue Mountain's trade dress. Consequently, the district court's finding that Blue Mountain's trade dress is nonfunctional, *id.* at 1541, is also not clearly erroneous. Indeed, we are not "left with the

definite and firm conviction that a mistake has been committed." *Brunswick*, 832 F.2d at 52.

None of Hallmark's arguments on appeal suggest that the district court erred or abused its discretion in granting the preliminary injunction. First, Hallmark contends that the district court erred in relying on the trade dress theory. We agree with the district court that the overall appearance of Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" cards constitutes a trade dress. The district court properly relied on the law dealing with trade dress infringement. Contrary to Hallmark's contention, Blue Mountain has not been granted exclusive rights in an artistic style[4] or in some concept, idea, or theme of expression. Rather, it is Blue Mountain's specific artistic expression, in combination with other features to produce an overall Blue Mountain look, that is being protected. This protection does not extend the protection available under trademark law and does not conflict with the policy of copyright law.

Second, Hallmark contends that the district court applied the wrong legal standards for determining functionality. Specifically, Hallmark contends that the district court erred by misinterpreting the test for determining whether a trade dress is functional and by refusing to consider the functionality of each feature comprising Blue Mountain's trade dress. As discussed above, however, the district court applied legal standards which generally comport with the test announced in *Brunswick*. Additionally, it was unnecessary for the district court to perform a feature-by-feature functionality analysis. The trade dress in this case is a certain arrangement or combination of features which creates the overall uniform appearance, look, and image of Blue Mountain's two major lines of greeting cards. The district

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4 Contrary to Hallmark's position and numerous assertions, the Blue Mountain "look" does not merely refer to Blue Mountain's artwork, one of the many features comprising the overall appearance of Blue Mountain's cards, or to some artistic style. Rather, the protected "look" referred to by the district court is the overall appearance of the cards, i.e., the trade dress. Although the district court or witnesses may have used the word "look" in defining one of the features of Blue Mountain's trade dress or in referring to the artwork itself, those references do not limit the district court's general use of the word "look" to mean the cards' overall uniform appearance, comprised of some or all of the features listed by the court.

court preliminarily determined that this trade dress is nonfunctional and thus protectable under section 43(a). Hallmark is therefore precluded from copying or imitating this overall appearance or look. This is the extent of the preliminary injunction.[5] Hallmark is free to utilize the individual features comprising the protected trade dress (unless the district court specifically determines that an individual feature is nonfunctional),[6] to produce emotionally expressive non-occasion greeting cards, and to compete with Blue Mountain. However, Hallmark must select and incorporate alternative features to avoid the potential for confusion, or alter, vary, and rearrange the features in such a way as not to produce a card with an overall appearance that is confusingly similar to the protected overall appearance of Blue Mountain's "AireBrush Feelings" and "WaterColor Feelings" cards. Contrary to Hallmark's assertions and its reliance on *American Greetings*, 807 F.2d at 1144, and *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 978 (2d Cir. 1987), the district court considered whether alternative designs were available which would avoid the potential for confusion and determined that Hallmark could feasibly produce emotionally expressive non-occasion greeting cards and effectively compete with Blue Mountain without imitating Blue Mountain's overall look. These findings are not clearly erroneous. Inasmuch as the district court specifically listed the combination of features that comprise Blue Mountain's protected trade dress, Hallmark is guided as to what features combined may create a confusingly similar product.

Third, Hallmark contends that the district court erred in including a functional core concept in the definition of Blue Mountain's trade dress. We disagree with Hallmark's description of the core concept of emotionally expressive non-occasion

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5 Indeed, the preliminary injunction in this case is specifically limited to 83 specific Hallmark "Personal Touch" cards which, according to the district court, incorporate some or all of the features comprising Blue Mountain's protected trade dress in a manner likely to cause confusion.

6 Although the district court did not analyze functionality on a feature-by-feature basis, the court did find that paper, ink, and verse are functional features of emotionally expressive non-occasion greeting card. This finding is not clearly erroneous.

greeting cards. Although text and artwork, in general, may be functional core concepts, the features detailing the type of text and artwork that is a part of Blue Mountain's trade dress are not core concepts. Unlike the injunction in *Prufrock Ltd. v. Lasater*, 781 F.2d 129, 131 (8th Cir. 1986), the preliminary injunction in this case simply does not grant to Blue Mountain the exclusive right to the concept of emotionally expressive non-occasion greeting cards or to a trade dress creating that concept. Moreover, as discussed above, what is protected in this case is the overall appearance of Blue Mountain's cards, not the individual features that make up that overall appearance when those features are arranged, altered, and combined with other features so as to avoid potential confusion.

V.

Based on our review of the relevant law and the record presently before us, we conclude that the district court was correct in determining preliminarily that the combination of the features comprising the trade dress, i.e., the overall appearance or look, of Blue Mountain's "AireBrush Feelings" and "Water-Color Feelings" cards is nonfunctional and thus protectable under section 43(a) of the Lanham Act. Inasmuch as Blue Mountain established a substantial likelihood that it will eventually prevail on the merits of its trade dress infringement claim under section 43(a), the district court did not abuse its discretion in preliminarily enjoining Hallmark from producing, manufacturing, marketing, advertising, promoting, offering for sale, selling, or distributing eighty-three specific "Personal Touch" cards which incorporate some or all of the ten described features constituting Blue Mountain's trade dress in a manner likely to cause consumer confusion as to the source of the cards.

Accordingly, the district court's grant of preliminary injunction is AFFIRMED.

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 86-C-1458

HARTFORD HOUSE LTD., et al.,

Plaintiffs,

—v.—

HALLMARK CARDS INCORPORATED, et al.,

Defendants.

ORDER

CARRIGAN, J.

This is an action for alleged trade dress infringement commenced by the plaintiffs Susan Polis Schutz, Stephen Schutz, and Hartford House Ltd. doing business as Blue Mountain Arts ("Blue Mountain"), against the defendants Hallmark Cards Incorporated and Hallmark Marketing Corporation (hereafter collectively referred to as "Hallmark"). Plaintiffs allege that Hallmark designed and distributed for sale a line of greeting cards that are deceptively and confusingly similar to greeting cards manufactured and sold by the plaintiffs. Plaintiffs assert that the defendants have violated the Lanham Act Section 43(a), 15 U.S.C. § 1114, and are guilty of unfair competition and copyright infringement.

On October 24, 1986, an all day hearing was held on the plaintiffs' Motion for a Preliminary Injunction seeking to enjoin the defendants from marketing their Hallmark "Personal Touch" greeting card line on the ground that it consists of

unauthorized copies of the plaintiffs' "Airebrush Feelings" and "Watercolor Feelings" lines of cards.

After studying the parties' voluminous briefs, I heard over six hours of testimony and argument on whether the plaintiffs are entitled to an injunction under the Lanham Act or Colorado unfair competition law, or both, to halt Hallmark's manufacturing and marketing of the allegedly infringing cards. In their preliminary injunction motion, the plaintiffs did not rely on their claims of copyright infringement and this order does not address those matters. This memorandum constitutes my preliminary findings of fact and conclusions of law as required by Rule 52(a), Fed. R. Civ. P. Obviously the findings and conclusions may be different after a trial on the merits.

Plaintiffs design, manufacture and sell greeting cards. Stephen Schutz and Susan Polis Schutz, the principals of Blue Mountain, began their business by selling posters from the back of a pickup truck while traveling across country. Susan composed poetry for the posters and Stephen created the background artwork.

In the mid-1970's, the Schutzes began producing greeting cards. Currently, their major card lines are "Airebrush Feelings" and "Watercolor Feelings." These lines have been on the market since 1981 and 1983, respectively. Blue Mountain has sold approximately 100 million cards and five million books of collected poetry.

Defendant Hallmark has produced greeting cards for more than seventy-five years. In June 1977, it began to manufacture and sell its Personal Touch line of greeting cards. Personal Touch cards on the market prior to April 1, 1986 are referred to as "first generation" Personal Touch.[1]

Blue Mountain has been an enormously successful leader in the phase of the greeting card industry aimed at expressing very

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1 Hallmark's Personal Touch cards, like the plaintiffs' Airebrush Feelings and Watercolor Feelings, are cards intended to express strong emotions. "[C]ards retailing love, heartache and other real-life, prepackaged emotions are among the hottest products in the industry." *Selling Strong Emotions: A Card for Every Feeling, From Insecurity to Heartache*, Time Magazine, May 12, 1986, at 95.

personal, strong emotions, and it has been said that Susan Polis Schutz is the "reigning star"[2] in this aspect of the greeting card business. Plaintiffs' commercial success did not go unnoticed by Hallmark, especially after Hallmark's first generation Personal Touch line failed to perform up to expectations in competition with Blue Mountain's cards.

According to an internal Hallmark document entitled "Personal Touch Creative Plan Outline," Blue Mountain was viewed by Hallmark as a serious competitive threat:

> "Personal Touch was created with the intent of 'displacing Blue Mountain.' A growing number of competitive cards have been filtering their way into Hallmark channels. Blue Mountain Art is frequently cited as one of the strongest competitive threats in terms of channel penetration."

Conversely, the Hallmark first generation Personal Touch cards posed little threat to Blue Mountain according to another Hallmark memorandum entitled "Executive Summary—Personal Touch vs. Blue Mountain Art Retail Test":

> "Blue Mountain Art cards have a higher performance level than Personal Touch possibly due to:
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> — a greater awareness of the BMA design styling and brand name recognition."

In early 1986, Hallmark mounted an intense effort to capture the emotionally expressive non-occasion greeting card market. It conducted extensive research of the respective retail performance levels and strengths of the Personal Touch and Blue Mountain card lines. At one point, Hallmark even convened a panel of card dealers to suggest ways of improving its market position. A Hallmark internal memorandum summarizing the panel's recommendations concluded:

> "The retailers think that Hallmark missed the mark on their attempt at alternative greeting cards. They think some of the offerings are good, but they will not displace Blue Mountain . . . . Hallmark should copy the alternative greeting cards offered by competitors . . . . Hall-

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2 *Id.*

> mark can either steal ideas from other alternative greeting card companies or be innovative."

Hallmark did not choose the latter; it chose to imitate instead of innovate.

On April 1, 1986, Hallmark introduced as replacements for much of its Personal Touch line a series of cards now commonly referred to as "second generation" Personal Touch cards. Plaintiffs claim that these "second generation" cards infringe on their trade dress protected under the Lanham Act.

A. *The Lanham Act.*

Section 43(a) of the Lanham Act, 15 U.S.C. § 1114, provides in relevant part as follows:

> "Any person who shall affix, apply, or annex, or use in connection with any goods or services or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce . . . shall be liable to a civil action . . . by any person who believes that he is or is likely to be damaged by use of any such false description or representation."

Section 43(a) creates a federal cause of action for trade dress infringement. *John H. Harland Co. v. Clarke Checks Inc.*, 711 F.2d 966, 980 (11th Cir. 1983). Product design may constitute protectable trade dress under § 43(a):

> "Courts have long recognized that recovery under § 43(a) is not restricted to federally registered trademarks, but extends to "words, symbols, collections of colors and designs, or advertising materials or techniques" that the purchasing public has come to associate with a single source. *RJR Foods, Inc. v. White Rock Corp.*, 603 F.2d 1058, 1059 (2d Cir. 1979). *See also Perfect Fit Industries, Inc. v. Acme Quilting Co.*, 618 F.2d 950 (2d Cir. 1980); J.T. McCarthy, Trademarks and Unfair Competition

§ 15.3 (1973)." *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 503 F. Supp. 647, 649 (S.D.N.Y. 1980).

To prevail on a trade dress infringement claim under § 43(a), a plaintiff must prove three basic elements:

1) That the features of the trade dress are primarily non-functional;

2) That the trade dress has secondary meaning; and,

3) That the competing products' respective trade dresses are confusingly similar, thus giving rise to a likelihood of confusion among consumers as to their sources. *Black & Decker Mfg. Co. v. Ever-Ready Appliance Mfg. Co.*, 518 F. Supp. 607, 616 (E.D. Mo. 1981).

1. *Functionality.*

A functional feature is one that "is essential to the use or purpose of the article or that affects the cost or quality of the article." *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850-51 n.10 (1982), citing *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938). An essential or utilitarian product feature must remain in the public domain to foster the policies of competition and product improvement. If the feature is non-essential, however, and serves to identify the source of the goods, it is protectable trade dress. *United States Golf Association v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984).

This comparative analysis of utilitarianism versus source identification requires a balancing of sometimes conflicting social interests. Functional features are not legally protected methods of identification, regardless of their association with the manufacturer, because their usefulness in identifying the product's source is outweighed by the public's interest in product refinement and development. That public interest in product improvement is served by granting competitors free access to a product's functional features. *Id.*

The only product features which should be classified as functional, therefore, are those utilitarian aspects which are essential to the product's use. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850-51 n.10 (1982). Competitive necessities that embody superior designs for the product's use are functional, particularly if only a limited number of superior designs are available. *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (Cust. & Pat. App. 1982).

An exception to the right to copy exists, however, when it is demonstrated that alternative designs are available, the product can serve its purpose without incorporating the feature in question, and the feature or features are established symbols of source identification. *Id.* at 1337-38. Competition must occasionally defer to the policy protecting non-essential design originality.

No mechanical test exists to assess a feature's functionality. Instead, I must balance the divergent social interests of competition and source identification by determining whether a product's value and use are dependent on an essential feature, or whether the feature's primary value is in identifying its provider. *United States Golf Association v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028, 1034 (3d Cir. 1984).

This inquiry is focused on the design features of emotionally expressive non-occasion greeting cards:

> [A] discussion of "functionality" is always in reference to the design of the thing under consideration (in the sense of its appearance) and not the thing itself. One court, for example, paraphrasing Gertrude Stein, commented that "a dish is a dish is a dish." *Hygenic Specialties Co. v. H.G. Salzman, Inc.*, 302 F.2d 614, 621, 133 USPQ 96, 103 (2d Cir. 1962). No doubt, by definition, a dish always functions as a dish and has its utility, but it is the appearance of the dish which is important in a case such as this, as will become clear. *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1337-38 (Cust. & Pat. App. 1982).

Hallmark relies on the "card is a card is a card" reasoning. A greeting card, however, may functionally convey a message and yet simultaneously communicate through inherently distinctive

non-essential features identifying the product's source. In *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203-04 (2d Cir. 1979) the Second Circuit dealt with a similar problem. Plaintiff sought to preliminarily enjoin exhibition of the motion picture "Debbie Does Dallas", a graphic depiction of a "Texas Cowgirl's" sexual escapades. During the apparently few scenes in the film where "Debbie" appeared clothed, she wore a cheerleading uniform that the plaintiff claimed was subject to its trademark.

The Second Circuit held that the combination of white boots, white shorts, blue blouse and white star-studded vest and belt was an arbitrary design which made an otherwise functional cheerleading uniform trademarkable. *Id.* at 204. Although a trademark could not be claimed in all clothing designed and fitted to allow free movement while performing cheerleading routines, the court concluded that legally protected trade dress existed in the combination of colors and decorations that distinguished the Dallas Cowboys' cheerleader uniform from other cheerleading uniforms. *Id.*

Similarly, the arbitrary selection and combination of greeting card features may constitute protected trade dress even though the features serve useful purposes in conveying messages and invoking certain emotions and feelings. Decorative or stylistic non-essential greeting card features may serve these functions, yet at the same time identity their source.

Moreover, the sponsorship or origin of the product can be anonymous as long as it is recognizable. In *Beer Nuts, Inc. v. Clover Club Foods Co.*, 711 F.2d 934, 939 (10th Cir. 1983), the court stated: "Trademark strength is measured by its tendency to identify the goods sold under the mark as emanating from a particular source, although possibly anonymous source." The AireBrush and Watercolor Feelings cards have an inherently distinctive and highly uniform "look" that is recognizable and attributable to Blue Mountain. The following elements comprise that look or trade dress:

1. A two-fold card containing poetry on the first page and the third page.
2. Unprinted surfaces on the inside three panels.

3. A deckle edge on the right-side of the first page.
4. A rough stripe of color, or wide stripe, on the outside of the deckle edge of the first page.
5. A high quality, uncoated and textured art paper for the cards.
6. Florescent ink for some of the colors printed on the cards.
7. Lengthy poetry, written in free verse, typically with a personal message.
8. Appearance of hand-lettered calligraphy on the first and third page with the first letter of the words often enlarged.
9. An illustration that wraps around the card and is spread over three pages, including the back of the card.
10. The look of the cards primarily characterized by backgrounds of soft colors done with air brush blends or light watercolor strokes, usually depicting simple contrasting foreground scenes superimposed in the background.

Defendants contend that the individual cards must be dissected and each feature analyzed separately for functionality. I reject that approach as alien to the policies of the Lanham Act. *See generally, LeSportsac Inc. v. K-Mart Corp.*, 754 F.2d 71, 76 (2d Cir. 1984) (analyzing each individual feature of overall design as functional or non-functional is not the appropriate inquiry, but instead it is whether overall design of bags is functional or non-functional); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema Ltd.*, 604 F.2d 200 (2d Cir. 1979) (overall look of costumes protected).

The creation and arrangement of individual product features into a particular overall design may itself constitute a non-functional product feature. A number of courts have adopted this aggregate approach to deciding the functionality question. *See, e.g., LeSportsac Inc. v. K-Mart Corp.*, 754 F.2d 71 (2d Cir. 1984); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cin-*

ema Ltd., 604 F.2d 200 (2d Cir. 1979); *American Greetings Corp. v. Dan-Dee Imports Inc.*, 619 F. Supp. 1204 (D.N.J. 1985); *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 503 F. Supp. 647 (S.D.N.Y. 1980).

In *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F. Supp. 1204 (D.N.J. 1985), the plaintiff had designed a line of stuffed toys known as Care Bears. These were composed of various individual elements including "jowly" heads, heart shaped paw pads and noses, pastel colors, "tummy graphics," and "tushie tags." The court concluded that each of these elements, standing alone and apart, was functional but in combination they were non-functional:

> "The court thus concludes that tummy graphics on white backgrounds are functional, and that plaintiffs may not acquire monopoly protection of them from the Lanham Act. However, the Act does proscribe defendants' copying of plaintiffs' product in full: defendants' products could and should have been designed to minimize confusion with plaintiffs' products, by altering non-functional elements of their stuffed animals, or combining functional elements in a different manner." *Id.* at 1220.

Similarly, in *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 503 F. Supp. 647 (S.D.N.Y. 1980), the plaintiff had created a fictional romance novel collection consisting of 372 individual titles. Each novel was identified to the series as a whole by the bookcover's distinctive "look" repeated throughout the series. That look consisted of various features of lettering, graphic lines, the name "Harlequin Presents" and "a circular colored montage against a background of scenes depicting the story line." *Id.* at 649. Defendant's romance series utilized a similar format except that it bore the title "Silhouette Romance." The court held that the aggregate features of the Harlequin book covers constituted trade dress protected under § 43(a).

Paper, verse and ink are functional features of a greeting card. The design and amalgamation of those features in a uniform fashion with other features, however, has produced the non-functional Blue Mountain "look".

Further evidence that the features developed by the plaintiffs are non-functional are the infinite alternative designs available to the defendants. Introduced into evidence were cards of the "highly emotional non-occasion" genre, manufactured by Hallmark and the plaintiffs' other competitors, with varying features quite different from the plaintiffs' trade dress. This is not a case where there are a limited number of designs available, thus mandating a finding of functionality. *Cf. Keene Corp. v. Paraflex Indus., Inc.*, 653 F.2d 822 (3d Cir. 1981).

The testimony clearly revealed that it would not be difficult for Hallmark to devise distinguishing features for its second generation Personal Touch line. Hallmark tested five different potential "looks" for the second generation line. By choosing a look so similar to Blue Mountain's that it is nearly impossible to differentiate between the respective card lines, the defendants have violated the core purpose of the Lanham Act to prevent the newcomer or "free rider" from unfairly capitalizing on another's innovation and development. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417 (5th Cir. 1984).

The ultimate inquiry concerning functionality is whether characterizing a feature or configuration as protected under § 43(a) of the Lanham Act "will hinder competition or impinge on the right of others to compete in the sale of goods." *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429 (5th Cir. 1984). *See also, Truck Equipment Service Co. v. Fruehaul Corp.*, 536 F.2d 1210 (8th Cir. 1976); *Fotomat Corp. v. Cochran*, 437 F. Supp. 1231 (D. Kan. 1977). The availability of alternative designs is a key factor in this regard. As stated *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (Cust. & Pat. App. 1982), "Since the effect upon competition 'is really the crux of the matter,' it is of course significant that there are other alternatives available."

Jeffrey Willsey, a Hallmark and Blue Mountain competitor, whose testimony I found to be quite credible, indicated that there is room for innovation and profit in the emotional non-occasion greeting card market without duplicating or copying another's products.

One salutary purpose of the Lanham Act in this context is to protect a creative artists' rights in his or her creation and thus

provide incentive to be creative. By protecting and fostering creativity, a product with features different and perhaps preferable to the Blue Mountain product may well be developed. Offering consumers a choice in the non-occasion greeting card market stimulates, rather than stifles competition.

Clearly, many design alternatives are available. There is no necessity to simulate Blue Mountain's trade dress.

> "Allowing the plaintiffs to exclude others from using their trade dress will not hinder competition nor will it interfere with the rights of others to compete. . . . In fact others are competing without copying, and they have not found it necessary to simulate the plaintiffs' trade dress in order to survive and prosper." *Cf. In re Morton-Norwich Products, Inc., supra* at 1332.

A design feature is essential only if the feature is dictated by the functions to be performed. *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 331 (2d Cir. 1983); *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1342 (Cust. & Pat. App. 1982). The fact that the AireBrush and Watercolor Feelings cards are useful and perform their intended functions effectively is not sufficient to render the design of the cards functional. *Id.* An emotional non-occasion greeting card can be folded, colored, shaped, cut, edged and designed in infinite ways and still function to send its message. As observed in *Morton*:

> "What is sought to be registered, however, is no single design feature or component but the overall composite design comprising both bottle and spray top. While that design must be *accommodated* to the functions performed, we see no evidence that it was *dictated* by them and resulted in a functionally or economically superior design of such a container." *Id.* at 1342.

A non-functional feature is one whose primary value is to identify the source of the particular goods or services. *United States Golf Ass'n v. St. Andrews Systems, Data-Mix, Inc.*, 749 F.2d 1028 (3d Cir. 1984). Hallmark admitted in its internal memoranda that Blue Mountain's competitive strength lies in the "greater awareness of the Blue Mountain Arts design styl-

ing and brand name recognition." As more fully discussed below, the AireBrush and Watercolor Feelings cards have an inherently distinctive and recognizable look attributable to their source, Blue Mountain.

I conclude, therefore, for purposes of preliminary injunctive relief, that the AireBrush and Watercolor Feelings features are primarily non-functional.

2. *Secondary Meaning.*

In order to prevail, the plaintiffs must establish that the AireBrush and Watercolor Feelings "look" possesses a secondary meaning. To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product's feature is to identify the product's source rather than the product itself. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850-51 n.10 (1982).

The distinctiveness of the trade dress largely determines the protection it will be afforded under the Lanham Act. *Beer Nuts, Inc. v. Clover Club Foods Co.*, 711 F.2d 934 (10th Cir. 1983). Some courts have even gone so far as to say that if the trade dress is inherently distinctive, there is no need to prove secondary meaning. *See, e.g., Animal Fair Inc. v. Amfesco Industries Inc.*, 620 F. Supp. 175, 190 (D.C. Minn. 1985). The better rule, however, and the rule approved by the 10th Circuit in *Beer Nuts*, is that an inherently distinctive trade dress is proof of secondary meaning.

Particularly probative evidence of secondary meaning are the admissions and statements of Hallmark's own employees and witnesses. Internal Hallmark memoranda introduced at the hearing included the following statements:

1. "BMA is a formidable competitor, because of their recognizable look established through 10 years of retail exposure, their high density/high visibility displays and their loyal, established base of retailers and customers."
2. "[BMA] Weaknesses
—Vulnerability to imitation—only one design/editorial style."

3. "Blue Mountain Arts is a copy intensive line characterized by conversational prose. The prose is most often quite long, although short prose can also be found in the line. The copy is always positioned on the cover of the card and is sometimes continued on the inside left or cover of infold panel. The inside (aside from these continuations) is always blank. In addition, some of the copy is titled.

   Distinctive features of the copy include its warmth, as well as its association with personal subjects such as insecurity, anxiety, doubt, support, reassurance, and encouragement. The copy is always followed by the name of the author."

4. "Because of its overall consistency and "look" across all product lines, Blue Mountain Arts is recognizable among card companies . . . . The calligraphed sentiments are executed with little variation in style . . . .

   Blue Mountain has made no attempts to vary their offering through special formats or design."

It is apparent from these memoranda that Hallmark not only believed Blue Mountain cards have an inherently distinctive look, but that their look is easily recognizable and attributable to a source that has generated a loyal customer following.

Evidence of secondary meaning was elicited from Hallmark's own witness Mary Ann Scott, a professor of art at the University of Denver. I found Professor Scott's credentials and experience as an art connoisseur impressive. She testified that the plaintiffs' cards were all very uniform and consistent in design.

Professor Scott further testified that based on her expertise she could detect artistic differences between the plaintiffs' and the defendants' cards. Her capacity and talent for artistic attribution, however, are rare qualities not found often among those who buy greeting cards. Plaintiffs' market research revealed that the average consumer cannot detect differences in minute stylistic details among or between the competing card lines here involved.

Secondary meaning can also be based on a finding that there is a likelihood of consumer confusion. *Transgo Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1015 (9th Cir. 1985) (cert. granted). Neither Professor Scott's testimony, nor that of any other defense witness, dissuades me from making such a finding.

Even more damaging to Hallmark, in my view, are the statements and admissions that Blue Mountain's cards have a distinctive look made at the time when Hallmark's Chief Executive Officer explored the possibility of buying Blue Mountain. As testified by Stephen Schutz and Susan Polis Schutz, without contradiction, they were contacted early in 1985 by David H. Hughes, Hallmark's Chief Executive Officer. Hughes visited them and indicated that Hallmark was interested in buying Blue Mountain or pursuing joint ventures. During the course of his visit, Hughes told the Schutzes "they were lucky" because Blue Mountain had its own "look" and style.

Proof of copying may be sufficient in and of itself to establish secondary meaning because there is no reason to copy a non-functional feature except to capitalize on an already existing secondary meaning. *Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 82 (3d Cir. 1982); *Transgo Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1011 (9th Cir. 1985) (cert. granted). Patricia Davis, Hallmark product manager, testified that after its first generation cards proved a commercial failure, she was given the responsibility to make the line successful. Under her leadership Hallmark purchased 200 of the Blue Mountain cards and began to analyze the Blue Mountain look.

At one point Hallmark even posed to a panel of card dealers the following question: "How do you feel about Hallmark copying Recycled Paper, Blue Mountain Art, and California Dreamers." Moreover, in a June 16, 1986 performance report on the second generation Hallmark cards, the defendants stated: "A dealer who complained that we were wrong to 'copy Blue Mountain Art' apologized and is excited about sales results."

Plaintiffs prepared as an exhibit comparative portional enlargements of various Blue Mountain and Personal Touch

cards. The enlargements were virtually identical; so nearly identical as to preclude a finding of coincidence.

Where a newcomer adopts a trade dress similar to that of an established manufacturer, even innocently, a failure or refusal to alter the trade dress to avoid confusion is equivalent to an original and actual intention to copy. *American Greetings Corp. v. Dan-Dee Imports*, 619 F. Supp. 1204, 1222 (D.N.J. 1985). Furthermore, a finding of intent to copy and "cash in" on the plaintiffs' reputation and goodwill may, standing alone, justify a finding of likelihood of confusion. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 434 (5th Cir. 1984); *Beer Nuts Inc. v. Clover Club Foods Co.*, 711 F.2d 934, 941 (10th Cir. 1983). It is easy for the business which wishes to sell its goods on their merits to select marks, designs and packaging that will not be confused with its competitors. *Chevron Chemical Co. v. Voluntary Purchasing Group*, 659 F.2d 695, 704 (5th Cir. 1981).

One who adopts a trade dress similar to another already established in the market place is viewed with suspicion by the courts. *See Beer Nuts Inc. v. Clover Club Foods*, 711 F.2d 934, 941 (10th Cir. 1983). He acts at his peril because the court presumes that he can accomplish his purpose, i.e., the public will be deceived. *Id.* "All doubts must be resolved against him." *Id.*

I find and conclude that there is substantial evidence to support a finding that Hallmark copied Blue Mountain's cards for the purpose of benefitting from and "cashing in" on Blue Mountain's already established reputation and goodwill. *See John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966 (11th Cir. 1983) (using competitor's product as model and designing new product resulting in similar-looking product is sufficient to support finding of intent to copy); *Silverman v. CBS, Inc.*, 632 F. Supp. 1344, 1351 (S.D.N.Y. 1983) (unauthorized copying can be proven by (1) access to copyrighted work, and (2) substantial similarity to that work).

The AireBrush and Watercolor Feelings "look" has been in existence for several years. Publicity concerning the look has been extensive and Blue Mountain receives thousands of unsolicited fan letters each year. Indeed, a ceramics manufacturer has purchased from the plaintiffs a license to replicate the Blue

Mountain look on mugs and other ceramic products, thus demonstrating that the distinctive look is recognized in the market as having a value separate from the cards.

I find and conclude on a preliminary basis that the AireBrush and Watercolor Feelings cards possess an established and secondary meaning that is being diluted by Hallmark's intentional copying.

3. *Likelihood of Confusion.*

Likelihood of public confusion is the dispositive issue in a Lanham Act case. *Freixenet SA v. Admiral Wine & Liquor Co.*, 731 F.2d 148, 151 (3d Cir. 1984). A "digits of confusion" standard set forth the following factors to be considered in determining whether likelihood of confusion exists: (1) similarity of products, (2) identity of retail outlets and purchasers, (3) identity of advertising media, (4) strength of trade dress, (5) defendant's intent, (6) similarity of design, (7) presence of actual confusion, (8) degree of care likely to be exercised by purchasers, and (9) other evidence showing that consumers are likely to be confused. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 430 (5th Cir. 1984); *Beer Nuts Inc. v. Clover Club Foods Co.*, 711 F.2d 934, 940 (10th Cir. 1983); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F. Supp. 1204, 1222 (D.N.J. 1985).

Consumer survey research is particularly helpful in testing for these digits of confusion. I found the testimony of Abraham Wolf, President of Arbor Inc., convincing consumer survey evidence. Arbor found that buyers of both Hallmark and Blue Mountain cards tended to be women over the age of sixteen. Respondents selected for the Arbor survey, therefore, were women sixteen or older, who had purchased both a Hallmark card and a Blue Mountain card in the past year. Respondents were shown Hallmark Second Generation Personal Touch cards and asked to identify the manufacturer or line of cards. In two phases of the study, 71 percent and 80 percent of the respondents respectively, mistakenly believed the manufacturer to be Blue Mountain.

The Tenth Circuit Court of Appeals has declared, with regard to comparison of trademarks and public confusion:

> "In evaluating similarity, '[i]t is axiomatic in trademark law that 'side-by-side-comparison is not the test.' The marks "must be compared in the light of what occurs in the marketplace, not in the courtroom. A prospective purchaser does not ordinarily carry a sample or specimen of the article he knows well enough to call by its trade name, he necessarily depends upon the mental picture of that which symbolizes origin and ownership of the thing desired." Therefore, the court must determine whether the alleged infringing mark will be confusing to the public when singly presented." *Beer Nuts, Inc. v. Clover Club Foods Co.*, 711 F.2d 934, 941 (10th Cir. 1983) (citations omitted).

Similarly, the greeting card consumer, when shopping, does not ordinarily carry around a specimen of the kind of card he or she seeks. As demonstrated by the plaintiffs' consumer survey research, confusion is highly likely between a mental picture or recollection of the Blue Mountain look and the second generation Personal Touch cards.

The *Beer Nuts* opinion provides further instruction with regard to applying the factors used in determining likelihood of consumer confusion:

> "Also relevant to likelihood of confusion are the means by which the products are marketed. "Converging marketing channels increase the likelihood of confusion." The possibility of confusion is greatest when products reach the public by the same retail outlets. Confusing similarity is most likely when the products themselves are very similar." *Id.* at 941 (citations omitted).

Converging market channels provided Hallmark's impetus to alter its first generation design. As indicated in company memoranda, Blue Mountain cards posed a severe competitive threat because they were "penetrating" Hallmark channels. Hallmark has unquestionably profited from confusion within the identical channels. *See Isaly Co. v. Kraft Inc.*, 619 F. Supp. 983, 992 (D.C. Fla. 1985) (confusion between Klondike bar and other ice cream bar, both sold in similar retail establishments).

The Tenth Circuit in *Beer Nuts* made the following additional observation with regard to public confusion:

> "Finally, the court must examine the degree of care with which the public will choose the products in the marketplace. " 'The general impression of the ordinary purchaser, buying under the normally prevalent conditions of the market and giving the attention such purchasers usually give in buying that class of goods, is the touchstone.' " Buyers typically exercise little care in the selection of inexpensive items that may be purchased on impulse. Despite a lower degree of similarity, these items are more likely to be confused than expensive items which are chosen carefully." *Id.* at 941.

Clearly non-occasion greeting cards are relatively inexpensive items that may be purchased on impulse.

Saul Zusman, a cardshop owner, testified that consumers rarely, if ever, flip a card over to read the name of its manufacturer printed on the back. Instead, greeting card sales result from impulse purchases based on the cards' content and design.

Finally, proof of actual confusion is not required to justify either preliminary or permanent relief under the Lanham Act. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F. Supp. 1204, 1223 (D.C.N.J. 1985). It is, however, obviously powerful and persuasive evidence of likely public confusion. Susan Polis Schutz testified that, while visiting a California card shop, even she was confused and deceived into believing a Hallmark card was her own.

I preliminarily find and conclude, for purposes of preliminary relief, that the Hallmark Personal Touch cards are so substantially similar to the plaintiffs' trade dress, that there exists a likelihood of confusion in the minds of the consuming public.

4. *Standards for Preliminary Injunction.*

In order to support preliminary injunctive relief the evidence must demonstrate:

1. Substantial likelihood that the movant will eventually prevail on the merits;
2. That the movant will suffer irreparable injury if the injunction does not issue;
3. That the threatened injury to the movant outweighs whatever damage the injunction may cause the opposing party; and,
4. That the injunction, if issued, would not be adverse to the public interest. *Lundgrin v. Claytor*, 619 F.2d 61 (10th Cir. 1980).

In trade dress actions, likelihood of consumer confusion establishes both the requisite probability of prevailing on the merits and the risk of irreparable harm. *Amoco Oil Co. v. Rainbow Snow*, 748 F.2d 556, 558 (10th Cir. 1984); *GTE Corporation v. Williams*, 731 F.2d 676, 678 (10th Cir. 1984); *Standard & Poor's Corp., Inc. v. The Commodity Exchange Inc.*, 683 F.2d 704, 708 (2d Cir. 1982); *By-Rite Distributing Inc. v. The Coca-Cola Co.*, 577 F. Supp. 530, 540-41 (D.C. Utah 1983).

Having tentatively found a likelihood of consumer confusion, I conclude that the plaintiffs have demonstrated a substantial likelihood of success on the merits of their Lanham Act claim and irreparable harm unless an injunction is granted.

The threatened injury to Blue Mountain greatly outweighs any damage the injunction may cause Hallmark. AireBrush and Watercolor Feelings are Blue Mountain's major card lines. The approximately 90 Hallmark Personal Touch cards in issue comprise a small portion of the 11,000 cards and related social expression products such as gift wraps, candles, stationery and party goods distributed by Hallmark through its network of approximately 22,000 independently owned retail outlets. If Hallmark is allowed to further dilute the Blue Mountain look prior to a trial on the merits, Blue Mountain will be ruined and any success it might gain through trial would be a pyrrhic victory.

Finally, it is in the public interest to enforce the policies of the Lanham Act, to prevent the likelihood of public confusion

from becoming an actuality, and to encourage creativity among artists.

Without admitting that some of the Personal Touch cards are not offending, the plaintiffs have suggested that certain of the Personal Touch cards be excluded from the scope of this order since it is a much closer question whether those cards infringe on the plaintiffs' trade dress. As to the remaining 83 Personal Touch cards, the plaintiffs' Motion for Preliminary Injunction is granted.

ACCORDINGLY,

IT IS ORDERED that the defendants Hallmark Cards Incorporated and Hallmark Marketing Corporation are hereby enjoined and restrained, pending a trial on the merits from producing, manufacturing, marketing, advertising, promoting, offering for sale, selling or distributing Second Generation Personal Touch cards 491-2, 502-9, 501-8, 435-9, 420-6, 460-7, 495-9, 501-1, 406-3, 502-4, 440-3, 470-5, 495-3, 495-8, 491-3, 502-0, 446-7, 406-2, 436-0, 405-9, 445-9, 500-8, 450-5, 420-7, 503-5, 446-3, 406-4, 420-8, 502-3, 435-8, 491-1, 501-7, 406-1, 436-2, 446-4, 501-9, 495-4, 500-9, 470-4, 450-4, 470-6, 491-4, 440-4, 501-4, 501-6, 502-7, 446-0, 446-9, 503-2, 503-0, 446-1, 495-6, 461-3, 491-0, 460-9, 502-2, 490-9, 502-5, 461-0, 461-2, 501-5, 436-3, 461-5, 446-3, 446-6, 410-6, 460-8, 446-5, 440-5, 501-2, 502-6, 502-8, 406-0, 503-4, 446-8, 502-1, 501-3, 461-1, 495-5, 430-4, 495-7, 503-1, 461-4.

It is unnecessary at this preliminary stage to address the plaintiffs' pendent state law unfair competition claims. Plaintiffs' request for attorneys fees is reserved until after trial.

Dated at Denver, Colorado, November 20, 1986.

BY THE COURT

/s/ JIM R. CARRIGAN

Jim R. Carrigan, Judge
United States District Court

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

No. 86-2748
(D.C. #86-C-1458)

MAY TERM—May 24, 1988

Before Honorable William J. Holloway, Jr., Chief Judge, Honorable Monroe G. McKay, Circuit Judge, and Honorable Juan G. Burciaga, District Judge*

HARTFORD HOUSE, LTD., a Colorado corporation, d/b/a BLUE MOUNTAIN ARTS, SUSAN POLIS SCHUTZ, and STEPHEN SCHUTZ,

Plaintiffs-Appellees,

—v.—

HALLMARK CARDS, INCORPORATED, a Missouri corporation, and HALLMARK MARKETING CORPORATION,

Defendants-Appellants.

JUDGMENT

This cause came on to be heard on the record on appeal from the United States Court for the District of Colorado, and was argued by counsel.

Upon consideration whereof, it is ordered that the judgment of that court is affirmed.

/s/ ROBERT L. HOECKER
Robert L. Hoecker, Clerk

* of the United States District Court for the District of New Mexico, sitting by designation.

APPENDIX D

LISTING OF HALLMARK SUBSIDIARIES

Except as noted by asterisks in the list below, the following are all wholly-owned subsidiaries of Hallmark Cards Incorporated ("Hallmark Cards"), Hallmark Marketing Corporation ("Hallmark Marketing"), or one of their subsidiaries. The stock of Hallmark Cards, Hallmark Marketing and all of their subsidiaries is privately held. An asterisk indicates that the subsidiary is not wholly-owned by either Hallmark Cards or Hallmark Marketing. The stock ownership of such subsidiaries is identified below.

1. *Ambassador Cards Australia (Pty.) Ltd., 100% ownership by Hallmark Cards Australia, Ltd.
2. Ambassador Cards of Canada, Ltd.
3. American Foodservice Enterprises, Incorporated
4. Binney & Smith (Australia) Ltd.
5. Binney & Smith (Canada) Ltd.
6. Binney & Smith (Europe) Ltd.
7. Binney & Smith Inc.
8. Binney & Smith International Inc.
9. *Binney & Smith (Mexico), S.A. de C.V., 50% Ownership by Binney & Smith, Inc., 50% Ownership by Mexican nationals
10. Blue Holding Company
11. Constantia Grafika (Pty.), Ltd.
12. Crown Center Redevelopment Corporation
13. Crown Power Incorporated
14. Diversity, Inc.
15. Evenson Card Shops, Inc.
16. Graphics International (Hong Kong), Limited
17. Graphics International, Inc. (California)

18. *Grupo HdM, S.A. de C.V., 96% Ownership by Hallmark Cards, 2% Ownership by Mexican nationals
19. Hallcrown Gifts, Inc. (Canada)
20. Hallmark Acquisition, Inc.
21. *Hallmark Cards Australia, Ltd., 80% Ownership by Hallmark Cards, 20% Ownership by Hallmark affiliated employee benefit plan
22. Hallmark Cards, GmbH (Austria)
23. Hallmark Cards, GmbH (Germany)
24. Hallmark Cards (Holdings), Limited (UK)
25. Hallmark Cards Limited (Ireland)
26. Hallmark Cards Limited (UK)
27. Hallmark Cards N.Z. Ltd. (New Zealand)
28. Hallmark Cards of Canada, Ltd.
29. Hallmark Continental Ltd. Ireland
30. Hallmark Credit Corporation
31. Hallmark Exports, Inc.
32. Hallmark Funding Corporation
33. Hallmark Marketing Corporation
34. Halls Merchandising, Incorporated
35. Hallmark Retail Services, Inc.
36. HC Crown Corp.
37. H. C. Insurance Co.
38. Kissel Properties, Inc.
39. Litho Krome Company
40. Panache Studio, Ltd.
41. Photo Production Limited
42. R. J. White Co., Ltd. (New Zealand)
43. Russell's, Inc.
44. *Specialty Services Pty., Ltd. (Australia), 100% Ownership by Hallmark Cards Australia, Ltd.

45. TransPacific Stores, Ltd.
46. *Univision, Inc., 100% ownership by Univision Holdings, Inc.
47. *Univision Holdings, Inc., 75% ownership by Hallmark Acquisition, Inc. and 25% by First Chicago Investment Corporation, an affiliate of First National Bank of Chicago
48. *Univision Station Group, Inc., 100% ownership by Univision Holdings, Inc.
49. Valentines of Dundee, Limited (Scotland)
50. VHI, Ltd.
51. Viele Cruesse GmbH (Germany)
52. William E. Coutts Company Limited (Canada)
53. W. N. Sharpe Holdings Limited ("Sharpe") (U.K.)
54. W. N. Sharpe Limited